

# Annual Report 2019



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## General Part

## Introduction



Dear Sirs and Madams,

Please allow me to look ahead before looking back. In several weeks, ten years will have passed from the moment we were granted a banking licence from the Czech National Bank and Fio banka came into existence.

Thanks to our tradition of providing quality services for zero or low fees, our new and purely Czech bank managed to quickly address a large number of individuals and businesses and at the end of its first year, it provided services to nearly 50,000 clients, which is the size of a large Czech town. I remember being proud of the number of people who found their way to us and placed trust in us.

Today, after nearly ten years, the number of our clients has exceeded one million. We are the first among so called young banks that achieved this milestone. However, what I appreciate even more is that we are a bank for practically all, be it citizens' associations and various societies that have an unrivalled number of transparent accounts in our bank, or businesses that managed to save significant funds thanks to our services. The largest number of our clients includes common people, individuals or entrepreneurs, for whom we are a stable and trustworthy partner managing their funds. Having mentioned that we are a bank for all I also refer to the fact that the age difference between our youngest and oldest client is remarkable 100 years!

Now, please allow me to look back at 2019. First, I am very pleased to repeat this year that the previous period has been once again the best year in our history. For the first time, we have achieved a net profit of CZK 1.8 billion, which is a growth of more than 75% year on year. It still applies that Fio banka has been generating profit since being granted a banking licence in 2010. Its total assets exceeded CZK 146 billion, which corresponds to a year-on-year increase of 17.7% and also other indicators show favourable results as specified on the following pages of this Annual Report.

I am very pleased by the fact that we have been successful not only in financial performance but also in various competitions, research studies or surveys. In the Golden Crown 2019 competition, we were successful with our free-of-charge personal account, business loan, the e-Broker investment application and the business account, which has been awarded as the best business account in the Czech Republic for the ninth consecutive year since 2011.

Thanks to our approach to clients, we placed among the TOP 5 firms with the best customer experience in the Czech Republic at the end of the year. We appreciate this achievement and continue to do our best to provide our clients with high-quality and reliable financial services that our clients like and use with trust. That is why we decided to reduce or even cancel certain fees, such as fees of all incoming international payments in euros and all outgoing standard Europayments. In addition, we allowed our clients to make unlimited withdrawals from our ATMs free of charge and introduced two free withdrawals from other banks' ATMs in the Czech Republic and abroad per month with no limits.

In 2019, we were successful in completing a number of projects having a great impact namely on our clients using smart phones to manage their accounts. The most apparent innovation is undoubtedly a new generation of the Smartbanking application for mobile phones with the iOS and Android operation systems, which has been upgraded with a number of new and useful functions in addition to its new design.

We introduced the Google Pay and Apple Pay payment services for those who like using the latest technological developments, allowing them to pay for goods or services via mobile phones equipped with NFC technology. As we implemented a contactless technology in our ATMs at the end of January 2019 users of these services, whose current number is about 50 thousand, can withdraw money from all of our ATMs more safely, by simply tapping the phone near the ATM.

At the turn of the last year, we allowed our clients to receive and then send so called immediate payments, which are rightfully referred to as some of the most significant improvements on the local banking market in a long number of years. As we are in the habit of providing a number of services charging no fees, immediate payments are provided to all our clients for free.

In conclusion, please allow me to thank you, our clients, shareholders and business partners, for your favour and the trust you repose in us. We deeply appreciate it and will make every effort to keep it in the following years. Last but not least, let me thank our employees for their loyalty and the great effort they put into work, without which it would be impossible to achieve the above-mentioned success.

**Jan Sochor**

**CEO and  
Chairman of the Board of Directors**

## A. Principal Information

Name of the Company: Fio banka, a.s. (hereinafter the "Company", "Fio banka" or the "Bank")  
Registered office: V Celnici 1028/10, 117 21 Prague 1  
Corporate ID: 618 58 374

## B. Information on Shares, Share Capital, Shareholders and Subsidiaries

- The Company's registered capital amounting to CZK 760,000 thousand is divided into 760,000 of ordinary book-entry registered shares (ISIN: CZ0008034246) with a nominal value of CZK 1,000.
- Transferability of the shares is not restricted; the shares may be transferred based on share transfer agreements.
- The shares entail rights as provided for in legislation and the statutes; no other rights or preferential rights are attached to the shares.
- The shares are not listed on any regulated market.
- As of 31 December 2019, the Company had a sole shareholder – Fio holding, a.s., corporate ID: 60192763, Prague 1, V Celnici 1028/10, Postal Code: 117 21.
- No dividends were paid in the past ten years.
- The Company or any entity in which the Company has a direct or indirect equity interest exceeding 50% of the share capital or voting rights own no shares of the Company.
- As of 31 December 2019, the Company had the following subsidiaries: Družstevní záložna PSD, Corporate ID: 64946835, Prague 1, V Celnici 1028/10, Postal Code 117 21, Czech Republic, RM-SYSTÉM, česká burza cenných papírů a.s., Corporate ID: 47116404, V Celnici 1028/10, Postal Code: 117 21, Czech Republic, RM-S FINANCE, s.r.o., Corporate ID: 62915240, V Celnici 1028/10, Postal Code: 117 21, Czech Republic, Fio Slovakia, a.s., Corporate ID: 35828137, Nám. SNP 21, Bratislava 811 01, Slovakia, Fio forexová, s.r.o., Corporate ID: 27589587, V Celnici 1028/10, Postal Code: 117 21, Czech republic, Fio Consulting, spol. s.r.o., Corporate ID: 25740334, V Celnici 1028/10, Postal Code: 117 21, Czech Republic, Fio investiční společnost, a.s., Corporate ID: 06704441, V Celnici 1028/10, Postal Code: 117 21 and Fio leasing, a.s., Corporate ID: 61860841, V Celnici 1028/10, Postal Code: 117 21.

## C. Information on Activity

### Business authorisation:

- The Ministry of Finance of the Czech Republic dated 15 August 1994, ref. no. 102/38 536/94;
- Decision of the Czech Securities Commission dated 18 June 1999, ref. no. 521/1388-k/99, whereby the authorisation granted by the Ministry of Finance of the Czech Republic on 15 August 1994, ref. no. 102/38 536/94, continued to be fully effective;
- Certification concerning the scope of the securities trading authorisation issued on 25 January 2001, ref. no. 43/Z/19/2001, by the Czech Securities Commission under Article II Transitory Provisions, Subparagraph 9 of Act No. 362/2000 Coll.;
- Decision of the Czech Securities Commission of 10 February 2004, ref. no.: 43/N/226/2003/1 – extension of the business authorisation;
- Decision of the Czech National Bank of 31 August 2006, ref. no.: 43/N/158/2005/6, 2006/7096/540 – extending the business authorisation to include derivatives trading; and
- Decision of the Czech National Bank of 5 May 2010, ref. no. 2010/4201/570 – granting a banking licence.

**Commencement of operation:** 31 August 1994

### Information on the Company's Formation, its Participation and Principal Business Activity:

Fio banka, a.s. was formed by a single Memorandum of Association on 20 June 1994 (under the former name Fio, burzovní společnost, a.s.) and was incorporated following its registration in the Register of Companies in Prague on 31 August 1994. Since 15 March 1995, the Company has been a shareholder of Burza cenných papírů Prague, a.s. As of 31 December 2019, the Bank owned 100 registered shares of Burza cenných papírů Prague, a.s. in the certificate form with a nominal value

of CZK 1,000. On 20 February 1995, the Company obtained membership in Burza cenných papírů Prague, a.s., starting its trading activity there in April 1995.

In line with a decision of the Czech Securities Commission of 10 February 2004, ref. no.: 43/N/226/2003/1, and with regard to the decision of the Czech Securities Commission, ref. no.: 512/1388-k/99 of 18 June 1999, the extent of the authorisation to perform securities trading granted to Fio, burzovní společnost, a.s. (Fio banka, a.s. at present) was as follows since 11 March 2004:

- Provision of principal investment services under Section 4 (2) (a), (b), (c), (d), (e) of Act No. 256/2004 Coll., the Capital Market Undertaking Act (hereinafter the "Act"), in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Act; and
- Provision of additional investment services under Section 4 (3) (a), (b), (c), (e) of the Act, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Act, and additional investment services under Section 4 (3) (d), (f) of the Act, in respect of investment instruments as defined in Section 3 (1) (a), (b), (c), (d) of the Act.

In line with a decision of the Czech National Bank of 31 August 2006, ref.no. 43/N/158/2005/6, 2006/7096/540, the extent of the authorisation to perform securities trading granted to Fio, burzovní společnost, a.s. (Fio banka, a.s. at present) was as follows since 12 September 2006:

- I. Principal investment activities under Section 4 (2) of the Act:
  - a) Receipt and provision of instructions relating to investment instruments (Section 4 (2) (a) of the Act);
  - b) Performance of instructions relating to investment instruments to a customer's account (Section 4 (2) (b) of the Act);
  - c) Proprietary trading with investment instruments (Section 4 (2) (c) of the Act);
  - d) Discretionary management of individual portfolios under a contractual arrangement with the client if this portfolio includes defined investment instruments (Section 4 (2) (d) of the Act);
  - e) Investment advisory concerning investment tools (Section 4 (2) (e) of the Act);
  - f) Underwriting of investment instruments or their placement with the subscription obligation (Section 4 (2) (g) of the Act); and
  - g) Placement of investment instruments without the subscription obligation (Section 4 (2) (h) of the Act).
- II. Additional investment activities under Section 4 (3) of the Act:
  - a) Custody and administration of investment tools including related services (Section 4 (3) (a) of the Act);
  - b) Provision of loans or borrowings to clients so as to facilitate trading with the investment tool in which the loan or borrowing provider participates (Section 4 (3) (b) of the Act);
  - c) Provision of advisory services related to the capital structure, industrial strategies and related issues, as well as provision of advisory services and services related to the transformation or transfers of companies (Section 4 (3) (c) of the Act);
  - d) Provision of investment recommendation and analyses of investment opportunities or similar general recommendation related to investment tool trading (Section 4 (3) (d) of the Act); and
  - e) Execution of foreign exchange operations related to the provision of investment services (Section 4 (3) (e) of the Act).

The provision of investment services under art. I., a) through c) and e) relates to investment instruments in line with Section 3 (1) (a), (b), (d) through (k) of the Capital Market Undertaking Act, ie investment securities, collective investment securities and derivatives. The provision of investment services under art. I., d), g) and h) relates to investment instruments in line with Section 3 (1) (a), (b) of the Capital Market Undertaking Act, ie investment securities and collective investment securities.

The provision of investment services under art. II., b) relates to investment instruments in line with Section 3 (1) (a) and (b) of the Capital Market Undertaking Act, ie investment securities and collective investment securities. The provision of investment services under art. II., a) and d) relates to investment instruments in line with Section 3 (1) (a), (b), (d) through (k) of the Capital Market Undertaking Act, ie investment securities, collective investment securities and derivatives.

In line with a decision of the Czech National Bank of 5 May 2010, ref.no. 2010/4201/570, the extent of the authorisation to perform securities trading granted to Fio banka, a.s. has been as follows since 5 May 2010:

- Undertaking the activities listed in Section 1 (1) of the Banking Act as follows:

- a) Acceptance of deposits from the general public;
- b) Extension of credit,

- Undertaking the activities listed in Section 1 (3) of the Banking Act as follows:

- a) Investing in securities on the Company's own account;
- b) Finance lease;
- c) Payments and clearing;
- d) Issuance and administration of payment facilities, eg credit cards and traveller's cheques;
- e) Issuance of guarantees;
- f) Opening of letters of credit;
- g) Collection services; and
- h) Provision of investment services within the scope of principal investment services

Within the scope of principal investment services including

- Under Section 4 (2) (a) of the Capital Market Undertaking Act No. 256/2004 Coll., as amended (hereinafter referred to as the "Capital Market Undertaking Act"), receipt and provision of instructions relating to investment instruments, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (b) of the Capital Market Undertaking Act, performance of instructions relating to investment instruments to a customer's account, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (c) of the Capital Market Undertaking Act, proprietary trading with investment instruments, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (d) of the Capital Market Undertaking Act, discretionary management of individual portfolios under a contractual arrangement with the client if this portfolio includes defined investment instruments, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;
- Under Section 4 (2) (e) of the Capital Market Undertaking Act, investment advisory concerning investment tools, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (g) of the Capital Market Undertaking Act, underwriting of investment instruments or their placement with the subscription obligation, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;
- Under Section 4 (2) (h) of the Capital Market Undertaking Act, placement of investment instruments without the subscription obligation, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;

and within the scope of additional investment services

- Under Section 4 (3) (a) of the Capital Market Undertaking Act, custody and administration of investment tools including related services, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;

- Under Section 4 (3) (b) of the Capital Market Undertaking Act, provision of loans or borrowings to clients so as to facilitate trading with the investment tool in which the loan or borrowing provider participates, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;
- Under Section 4 (3) (c) of the Capital Market Undertaking Act, provision of advisory services related to the capital structure, industrial strategies and related issues, as well as provision of advisory services and services related to the transformation or transfers of companies;
- Under Section 4 (3) (d) of the Capital Market Undertaking Act, provision of investment recommendation and analyses of investment opportunities or similar general recommendation related to investment tool trading, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (3) (e) of the Capital Market Undertaking Act, execution of foreign exchange operations related to the provision of investment services;
  - i) Financial brokerage;
  - j) Foreign exchange services;
  - k) Provision of banking information;
  - l) Proprietary trading or trading on a client's account with foreign currencies and gold;
  - m) Rental of safe-deposit boxes; and
  - n) Activities that directly relate to the activities in the banking licence.

## D. Report on the Company's Business Activity and Assets

### Assessment of retail banking:

2019 was the most successful year in the Company's history with respect to profit. In the last year, the net profit increased by more than 75% to CZK 1,803 million and the number of clients came close to one million, amounting to 980 thousand. Despite its client-focused policy of zero fees, Fio banka reported additional profitable year. The Bank was successful in acquiring new clients among individuals. The current account with zero fees continues to be the Company's core product which is offered to both individuals conducting business and corporate entities.

The Company's total assets grew to more than CZK 146 billion as of 31 December 2019, which means a year-on-year increase of more than 17.7%. The volume of payables to clients has grown during the year from CZK 120.6 billion to CZK 140.4 billion. The increase in the bank balance together with the growth in interest rates on the Czech financial market drove the positive development of total interest income, which amounted to CZK 2,920 million. The recognition and use of provisions and reserves for receivables slightly grew in 2019 from CZK 297 million to CZK 306 million.

We continued expanding our network of branches in the Czech Republic. We expanded a number of branches for our clients and established a new branch in Vyškov, thus rounding the number of branches to 85. The newly open branch offers clients complete banking and investment services and a non-stop available ATM. We opened two new branches for our Slovak clients in Levice and Považská Bystrica. We also expanded the network of our ATMs by 28 to a total of 208. For 2020, we plan further improvement of our network to include 20 recycling ATMs that enable cash depositing. We intend to continue the expansion and modernisation of our branch network in 2020.

We also improved our online applications, predominantly the mobile ones. The Internetbanking mobile application for Android and iOS was improved with a new design and control and a number of new and useful functions were added in 2019. We also provided our clients with access to mobile payment options using Apple Pay and Google Pay. The newly offered services are used by more than 50 thousand clients.

### **Assessment of investment banking:**

As part of our effort to provide access to investments to the maximum number of clients, an option to trade mutual funds managed by Fio investiční společnost was implemented in the internet banking. The option to invest in share certificates of a special fund called Fio fond domácího trhu (Fio local market fund) and a standard fund named Fio globální akciový fond (Fio global equity fund) thus opened to another group of our clients who only used the Internetbanking application before.

Fio global equity fund is focused on investments in stocks traded predominantly on the markets of advanced economies (advanced economies refer namely to the OECD member states). The minimum investment in stock or similar investment instruments must be at least 80% of the fund's asset amount.

Fio local market fund is a dynamic mixed fund investing at least 60% of funds to shares traded on stock exchanges in the Czech Republic, or shares of companies traded on foreign markets that also have a strong connection with the Czech Republic.

A suitable investment strategy together with a positive development of the global economy and stock markets resulted in a very good appreciation of the finance invested in our mutual funds and also in an increase in the volume of assets managed in the funds. In 2019, the net amount of assets per share certificate grew by 9.4% and 21.9% in Fio local market fund and Fio global equity fund, respectively. The total volume of assets managed in Fio funds grew to nearly CZK 125 billion in 2019.

In the online trading segment, which ranks among the key services of the investment segment of Fio banka, our clients slightly preferred foreign markets where 53% of all transactions were made (US markets 48%, Xetra 5%). The remaining 47% was attributable to the local stock market on which clients continue to benefit from the above-average dividend income. The total volume of invested funds of the Bank's clients for 2019 increased by more than 5% to CZK 98 billion.

The Investment School organised regularly in spring and autumn completed its 30<sup>th</sup> and 31<sup>st</sup> semesters. Once again, people interested in information on capital and financial markets could learn for free the key concepts, principles and rules of operation of stock exchanges, financial and investment tools. Together with the Czech RM-SYSTÉM stock exchange, we organised 86 seminars in 24 towns and cities in the Czech Republic and Slovakia last year. The high demand for the Investment School in 2019 is demonstrated by more than 4,000 registrations.

Apart from the general public, we focus on helping universities every year in the preparation of students for their future practical life. Our unique project called Studentbroker used by universities in the Czech Republic and Slovakia is a great help in this effort. Students can join in to find out what it is like to trade on financial markets with local and foreign shares and futures contracts with underlying assets including gold, silver, oil, sweetcorn, wheat, etc. In 2019, 500 students from 10 universities participated, jointly concluding 16,155 transactions.

As already mentioned, 2019 will undoubtedly be one of the successful years in the Bank's history, however, the current global uncertainty caused by the global spread of the novel coronavirus causing COVID-19 results in a significant tension, volatility and rapid sales on financial markets. At the moment, the real impacts of the ongoing pandemic, which is no doubt unprecedented for the Czech population, are difficult to predict. 2020 is likely to pose serious economic challenges to us as well as to the Czech and global community. However, I would like to assure you that in the forthcoming period, we will do our best to continue our concept aimed at achieving the Bank's slow development and growth sustainable in the long term, namely in terms of winning new clients, development of newly designed products and improvement of the existing ones.

## **The most important events in 2019**

### **Contactless withdrawals from ATMs**

At the end of January, we managed to provide all ATMs in which processing is provided by the Bank with a contactless technology that makes it possible to withdraw cash without the necessity of inserting the payment card in the ATM. Thanks to that, withdrawals from these ATMs were made faster and safer.

### **900,000 clients**

In early February, we achieved a significant milestone when the number of the Bank's clients exceeded the 900,000 level for the first time.

### **30<sup>th</sup> semesters of the Investment School**

As part of our effort to provide financial education to the general and professional public, we organised a series of free educational seminars in capital markets held in a number of towns and cities in the Czech Republic and Slovakia. In spring, we organised the 30<sup>th</sup> jubilee semester.

### **Bankers to Schools**

In its effort to educate young people in elementary and secondary schools in financial literacy, the Czech Banking Association organised a new year of an event called Bankers to Schools. As we consider education of future generations to be one of the crucial issues, we decided to support this event and, under the auspices of the CBA, we visited a number of elementary and secondary schools in several cities in the Czech Republic and provided young people with understandable advice and shared experience relating to the security rules when paying in cash, with payment cards, via mobile phones and online and explained the principles of balanced household budgets. We put emphasis on warning against the risk of excessive and unnecessary indebtedness. According to the feedback received from pupils, students and schools, this form of education was a welcome change in the usual school routine and we enjoyed it as well.

### **Google Pay**

Since April 2019, mobile phone users with Android have had the option to pay in shops and online using Google Pay service.

### **Removal of fees**

In 2019, several adjustments to our price list were made that were very much appreciated by our clients as we expanded the large number of our free services to include additional ones. For example, all incoming international payments in EUR and all outgoing standard Euro payments are free of charge now. We entitle all our clients to make two withdrawals from any ATM in the world for free every month, including ATMs of other banks in the Czech Republic. From our own ATMs, clients can withdraw cash for free at any time and with no limitation.

### **Second generation Fio Smartbanking**

In early June, we issued an entirely new generation of the Smartbanking mobile application for iOS. Users with Android had to wait for the new application until December 2019. In addition to the new design and control, the application includes a number of a new and useful functions.

### **Mutual funds in Internetbanking**

Since September 2019, people interested in investments in mutual funds of Fio investiční společnost can purchase and sell share certificates of individual funds directly in the Company's internet banking.

### **Apple Pay**

Since October 2019, users of mobile phones with iOS can pay at shops and online using the Apple Pay service. At the end of 2019, about 50,000 clients used some of the services allowing payments via mobile phones.

### **KARO INVEST on the RM-SYSTÉM stock exchange**

In November, Fio banka, the largest online broker in the Czech Republic, allowed investors to trade in KARO INVEST shares on the Czech RM-SYSTÉM stock exchange, which results in a number of benefits. On the Czech RM-SYSTÉM exchange, shares may be, as standard, traded in the continuous regime as well as with EasyClick discounted fee instructions.

### 85<sup>th</sup> branch in the Czech Republic

In November, we opened the Bank's 85<sup>th</sup> branch in the Czech Republic, specifically in Vyškov at Jana Šoupala 17/2. It is open every business day and offers clients with complete banking and investment services and a non-stop available ATM.

### Immediate payments

At the end of the year, we allowed Fio bank clients to receive so called immediate payments. From mid-January 2020, they can also send them for free with no additional expenses.

### Major awards

In 2019, Fio banka won two Golden and two Bronze Crowns in the traditional Golden Crown 2019 financial product competition. The top positions in their respective categories were taken by the business account, which has been the winner of this category since 2011 without interruption, and the e-Broker investment application, which has had no rival in the category of securities trading since 2015. Our business loan and free-of-charge personal account came third.



As part of an entirely independent KPMG Nunwood study called Generation CX focusing on the assessment of customer experience from businesses across the Czech Republic, we are among the TOP 5 firms with the best customer experience. This achievement is a proof that we are going the right way in approaching our clients.

### Structure of the branch network

Name of the company: Fio banka, a.s.

Corporate ID: 61858374

Registered office: V Celnici 1028/10, 117 21, Prague 1

Branches (as of 31 December 2019) – town, street, postal code, (country), e-mail:

#### *Czech Republic*

Beroun, nám. M. Poštové 854, 266 01, [beroun@fio.cz](mailto:beroun@fio.cz)

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Organisational branch:

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## Trading on the markets in the Czech Republic

In terms of total income, the Prague Stock Exchange experienced a favourable year in 2019. Although the local market reported slightly lower performance compared to the advanced foreign markets, the PX index grew by +13%; thanks to the dividend income, the total yield of the local market was +18%. The volume of stock transactions on the Prague Stock Exchange was the lowest since 1994 in 2019 and decreased by CZK -22,5 billion year-on-year to CZK 120 billion.

The most profitable were the shares of the antivirus programme producer, Avast, whose prices continued growing throughout the year, finally adding +77%. Together with improved financial results, Avast's shares reflected the global interest of investors in the technological sector. The imaginary second place was taken by the shares of the CME media group, adding +64%. CME improved its financial results, continued reducing debts and its growth was driven by the interest in its majority shares by PPF. The greatest slump was reported by the textile producer Pegas, whose shares fell by -15%, reflecting low liquidity and little interest of investors. Moneta refused a disadvantageous acquisition proposal by PPF and its performance was very good (+32.5%). As for other representatives of the financial sector in Prague, we reported improved performance of the Austrian insurer VIG (+28%) and Erste (+20%). The shares of Komerční banka „only“ generated 3.5% including dividends this time. Dividends were what saved the shares of ČEZ from a greater decline (-0.4%) when namely foreign investors sold shares of the power company as a result of concerns about the construction of a new nuclear unit.

The Start market, which was established by the Stock Exchange in 2017 and is intended for placements of Czech companies from the small and medium-sized firm segment, has grown to include six traded firms. The most traded shares in 2019 were those of the development group UDI, whose shares participated in the START segment turnover by 62.5%. The shares of UDI CEE appreciated in 2019 (+8%).

## **Foreign market trading**

Despite the global economic slow-down, stock markets experienced a successful year in 2019. The global stock index MSCI World grew by 25% and exceeded its latest highs from January 2018. On individual markets, the most successful were the US indices driven up namely by the technological sector. The main reason for the growth in shares were attractive valuations after the sales towards the end of the prior year and the central bank policy, which lead to the yield decrease on the bond market and supported investor's expectation of global economy recovery.

Throughout the year, there was a global synchronised reduction in interest rates and other monetary incentives. The European Central Bank renewed the programme of quantitative easing and further reduced rates towards the negative figures. The yield curve of certain European countries was negative and investors were forced towards the assets bearing higher risks. The US yield curve, which has been historically one of the best indicators of economic development, got into inversion, indicating upcoming recession. The US Fed responded by turning the helm of monetary policy and instead of the planned rate increase it decreased the rates several times. To calm down the money market, Fed decided to significantly increase liquidity in the financial sector through blowing up its balance.

The monetary drivers of central banks supported shares despite the slowdown in the global economy which suffocated primarily due to the ongoing business war between the United States and China and the pending issue of Brexit. The entire year was denominated by the introduction of business barriers and retaliatory measures complicating planning and investment decision-making of firms. The business war was reflected predominantly in the weakening of industry, which gradually moved to services. The economies tied to international trading, such as Germany or South Korea, suffered the most. However, the labour market and household consumption remained solid across regions. In the second half of the year, the initial phase of business agreement between the US and China started to be notified and it was finally signed by representatives of both countries at the end of the year. In December, parliamentary elections in the UK were held, which confirmed Brexit and the Britons will ultimately exit the European Union after all. Removal of two major geopolitical risks resulted in the improvement of business confidence indicators, which was another stimulus for risk assets and stock markets ended up on the wave of optimism.

## **Proprietary trading**

In 2019, Fio banka maintained its position built in previous years on the financial markets. On the stock market, the Bank continued its market maker activities on the Prague Stock Exchange. All issues that are placed on the Prime regulated market and, concurrently, are part of the PX index were listed. Based on the statistical data on transactions made by Prague Stock Exchange members, the volume of transactions made by the Bank in 2019 dropped from CZK 30,254 million in 2018 to CZK 26,020, which is a decline of 14%. However, the total annual volume of transactions with shares on the stock exchange decreased more significantly, namely by 23.7%. This indicates that the Bank increased its market share and in the overall ranking based on the traded volume of shares maintained the third place from 2018.

Yields from Czech government bonds experienced a decline in 2019 and their attractiveness further decreased. Specifically, at the beginning of 2019, the yield of a ten-year government bond of the Czech Republic was about 1.85% while at the end of the year it was 1.55%. This was namely driven by the decreasing yields on other advanced bond markets in the eurozone. Fio banka did not make any new investments in the bond portfolio. As in 2019, no bond in the Bank's portfolios was due, the structure of bonds held remained the same. The bond portfolio continues to be only composed of government bonds, with Czech government bonds accounting for 98.2% and Slovak government bonds for 1.8%.

Having increased the key repo rate five times in 2018, the CNB slowed down the pace in 2019 and the repo rate increased just once in May from 1.75% to 2%. Although the domestic economic fundamentals indicated possible further rate increase, namely the inflation outlook, there was no other rate increase.

External uncertainties namely relating to Brexit and the business war between the USA and China and the reduction of industrial production in Germany were the breaks. However, even the repo rate growth to 2% further improved the situation on the money market and Fio banka thus could generate higher proceeds from CZK available fund placements with the majority of transactions concluded with the Czech National Bank within two-week repo transactions.

### **Information on the Company's assets and financial situation**

The Bank's total assets amounted to CZK 146,770 thousand as of 31 December 2019, principally comprising cash in hand and balances with central banks of CZK 118,148 thousand, balances with banks and cooperative credit unions of CZK 2,097 thousand, receivables from clients of CZK 20,148 thousand, from debt securities of CZK 4,358 thousand, from shares, share certificates and other investments of CZK 173 thousand, from participation interests of CZK 160 thousand and from other assets of CZK 1,376 thousand

In 2019, the Company recorded a net fee and commission income of CZK 375,574 thousand, a net interest income of CZK 2,397,962 thousand and income from financial transactions of CZK 634,436 thousand. The Bank's operating profit before tax was CZK 2,225,445 thousand.

The Bank's situation has been stable in the long-term. The Bank has permanently a sufficient amount of liquid financial assets to settle its liabilities; it makes allocations, on a regular basis and in full, to the Stock Exchange's guarantee funds, to the Deposit Insurance Fund and the Securities Dealers Guarantee Fund. The Bank has never been insolvent throughout its existence.

Successful expansion of the Bank's credit portfolio as well as an increase in other indicators resulted in a larger volume of risk exposures. As of 31 December 2019, the Bank's capital ratio was 18.24 % (of which 17.78% constitutes the Tier 1 capital ratio), which is above the level of regulatory requirements, constituting a secure level for risk coverage.

### **Information on the contribution to the Guarantee Fund**

As a securities trader, Fio banka, a.s., contributes to the Guarantee Fund of traders in securities, which provides a guarantee system from which compensation is paid to customers of securities traders that are unable to meet commitments towards their clients. The basis for calculating the Bank's contribution to the Guarantee Fund for 2019 amounted to CZK 110,421,935.17. The amount of the Bank's contribution amounted to CZK 2,208,438.70.

## **E. Statutory, Supervisory and Other Bodies**

### **Board of Directors:**

**Jan Sochor**, Chairman of the Board of Directors

Mr Sochor graduated from the Faculty of Mathematics and Physics of Charles University and has been active on the capital market for more than 20 years. He has been Chairman of the Board since 22 May 2002. From 30 April 2001 to 23 April 2002, he worked as a statutory executive of the securities trading company Fio brokerská, spol. s r.o. Prior to holding this post, he had been already employed in Fio brokerská, spol. s r.o., predominantly focusing on creating an electronic trading system. Jan Sochor also held the post of Chairman of the Board of Directors at Fio, burzovní společnost, a.s.

**Josef Valter**, Member of the Board of Directors

Mr Valter graduated from the Faculty of Law of Charles University in Prague. He has been employed in the Fio Financial Group since 2002 when he obtained the position of Head of the Legal Division (later becoming Director of the Legal and Compliance Division). Josef Valter was a member of the Board of Directors of Fio, družstevní záložna from 2002 to 2006 and Chairman of the Board of Directors of Fio, družstevní záložna from 2006 to 2010. He has been a member of the Board of Directors of Fio banka since 5 May 2010.

**Jan Bláha, Member of the Board of Directors**

Mr Bláha graduated from the Faculty of Economics of VŠB - Technical University of Ostrava and has been employed in the Fio Financial Group since 2000. At present, he is Director of the Sales Division. He has been a member of the Company's Board of Directors since 25 March 2015.

**Marek Polka, Member of the Board of Directors**

Mr Polka graduated from the Faculty of Finance and Accounting of the University of Economics, Prague (VSE) and has worked for the Fio Financial Group since May 2001 when he took up the position of a client assistant in the Prague branch. Mr Polka gradually held the positions of the acting head of the Plzeň branch, head of the Group's largest branch in Prague as well as the head of the entire Client Service Department. Since April 2006, he has been the head the Group's Client Division. On 1 April 2006 he became a member of the Board of Directors of Fio, družstevní záložna and on 3 May 2010 Chairman of the Board of Directors of Fio, družstevní záložna. His key responsibilities as the head of the Client Service Department predominantly involved ensuring proper operation of branches, managing customer relations and product range administration. Since 24 September 2014, Mr Polka has been Director of the Company's Credit Division. He has been a member of the Board of Directors of the Company since 25 March 2015.

**Filip Novotný, Member of the Board of Directors**

Mr Novotný graduated from the Faculty of Mathematics and Physics at Charles University. He joined the Fio financial group in October 2004, when he joined the company as a client-focused employee at the Prague office. Since 2006, he has held the position of chief risk manager at Fio, burzovní společnost, a.s. At present, he holds the position of chief risk manager at Fio banka and a member of the Board of Directors responsible for risk management..

Under Section 8 (1) of Act No. 21/1992 Coll. on Banks, as amended, the Bank's Board of Directors has five members as of 31 December 2019.

**Supervisory Board:**

**Romuald Kopún, Chairman of the Supervisory Board**

Mr Kopún graduated from the Faculty of Mathematics and Physics of Charles University. He has been a member of the Supervisory Board since 1994. By holding this position, he has gained the necessary experience in the capital market sector.

**Petr Marsa, Vice Chairman of the Supervisory Board**

Mr Marsa graduated from the Faculty of Mathematics and Physics of Charles University. He has been active on the financial market for more than 20 years. He has held various positions in the bodies of several entities within the Fio Financial Group.

**Ján Franek, Member of the Supervisory Board**

Mr Franek graduated from the Faculty of Nuclear Sciences and Physical Engineering of the Czech Technical University in Prague. He has been working for the Fio Financial Group since 1995. Since 2001, he has been the head of the Development Division, being responsible for development projects aimed at expanding and improving the quality of client services.

**Audit Committee:**

**Jan Kotíšek, Chairman of the Audit Committee**

Mr Kotíšek graduated from the faculty of International Relations of the University of Economics, Prague (VSE) and completed the Executive MBA in Finance at the University of New York in Prague. Mr Kotíšek has worked on the financial market for more than 20 years, holding posts at Vojenský otevřený penzijní fond, a.s., Foresbank, a.s., Spořitelní a úvěrové družstvo Unibon, Záložna CREDITAS, spořitelní družstvo as well as at the Supervisory Office for Credit Unions.

**Petr Marsa**, Vice-chairman of the Audit Committee

Mr Marsa graduated from the Faculty of Mathematics and Physics of Charles University. He has been active on the financial market for more than 20 years. He has held various positions in the bodies of several entities within the Fio Financial Group.

**Václav Svoboda**, Member of the Audit Committee

Mr Svoboda graduated at the Faculty of Economics of the University of Economics, Prague. He has worked as a statutory auditor for over 20 years.

Members of the Board of Directors, Supervisory Board, Audit Committee or the Company's management hold no treasury shares of the Company.

The Company's employees do not have an opportunity to have equity interests in the Company.

## F. Other Information

The statement of changes in equity for the last two reporting periods is included in the financial statements which form part of this annual report.

The number of average recalculated headcount and changes thereof are disclosed in the notes to the financial statements for the year ended 31 December 2019 which are part of this annual report. Increasing the number of the Company's staff corresponds to the Company's strategy aimed at the continuous increase of the quality of provided services.

The Company incurred no costs on research, development and environmental protection in 2018. The costs of labour relations incurred in 2019 are disclosed in the notes to the financial statements for the year ended 31 December 2019 which are part of this annual report.

Based on a decision of the Board of Directors of 5 May 2010, an organisational branch of the Company was established in Slovakia: Fio banka, a. s., pobočka zahraničnej banky, corporate ID: 36 869 376, Nám. SNP 21, Bratislava 811 01, Slovakia.

The Company will continue to operate as a going concern.

### Significant Post Balance Sheet Events

Recession resulting from measures taken by individual states in relation to the COVID-19 pandemic is accompanied by a number of risks and significantly mitigates the relatively optimistic outlook from prior periods.

#### Macroeconomic impacts

For the Czech Republic, which is a small open economy, the current recession poses a threat namely due to the decline in foreign trade. While predictions of most financial authorities spoke about the expected growth of Czech GDP slightly above 2% in early 2019, now the estimates are significantly negative. At the same time, there are significant changes in the CNB's policy as the CNB critically reduces interest rates.

#### Macroeconomic impacts on Fio banka

Fio banka is now exposed to three macroeconomic risks: currency and political rates, exchange rate policy and market risks. Significant reduction of rates by the CNB has become a potential risk for Fio banka due to its highly conservative portfolio in which majority of assets are placements in repo operations with the CNB. Fio banka thus decided to increase the volumes of government bonds it holds as they promise a stable long-term yield, albeit lower. Liquidity and the conservative approach have not been disrupted by this strategic decision. There is no need to vigorously increase capital requirements and the Bank is not exposed to counterparty market risk. Czech government bonds are assessed by rating agencies as ranking among the safest in the world thanks to the low government debt.

The risk of exchange rate development caused namely by the nature of the Czech crown dirty-floating is predominantly operating risk for the Fio group. Unexpected exchange rate movements have a negative impact on balanced FX cash-flow whose long-term goal is to hold amounts denominated in foreign currencies that are needed for our clients' operations and group entities. Fio banka responds to the situation by flexible spot and forward transactions on the financial market and by adjustments of internally set-up limits for exchange rate risks.

The market risk only has a small impact on Fio banka as it hedged its liquidity portfolio in time by standard short derivative instruments and, predominantly, holds its market portfolios at levels where even the current significant losses have no material impact on profit or loss.

### **Microeconomic impacts**

The state of emergency introduced by the government resulted in significant restrictions having a negative impact on the labour market and ability of businesses generate income and profit. Businesses from affected sectors and their employees will face significant deterioration of their available income. The key factors will include the length of the government restrictions and availability and the government's guarantee of financial aid to overcome the current situation.

### **Microeconomic impacts for Fio banka**

The Bank's microeconomic impacts namely include all financial losses of clients causing increased credit risk. At the first signs of the pandemic, the Bank started monitoring the most exposed entities, i.e. entities working in the travel sector or industries with a high portion of export.

Pursuant to Act no. 177/2020 Coll., Fio banka started providing repayment concessions to all clients who are not able to meet their obligations as a result of the coronavirus pandemic. In order to reduce its credit risk, the Bank applies discount on collateral value due to prospective decreases of prices on the real estate market. At the same time, Fio banka requires from clients applying for new loans a higher portion of their own funds.

### **Impacts in the Bank's risk position**

Compared to other entities on the financial market, the Bank has a more favourable position as it has applied a conservative strategy of slight growth with minimum risk in the long term. It is ready to include the high profit for 2019 generated by excellent economic conditions in its capital to have a sufficient reserve to meet its regulatory requirements, including the expected MREL. The measures relating to credit risk are fully acceptable by the Bank as they comply with the stress testing expectations from prior years. Fio banka is prepared to face future challenges with maximum commitment, preferring stability and security of which its clients are well aware. Thanks to this strategy we believe that despite the current unfavourable conditions we will generate a stable profit in the following year, which will allow us to further develop and improve our client services.

### **Head of the organisational branch:**

#### **Marek Polka**

Mr Polka graduated from the Faculty of Finance and Accounting of the University of Economics, Prague (VSE) and has worked for the Fio Financial Group since May 2001 when he took up the position of a client assistant in the Prague branch. Mr Polka gradually held the positions of the acting head of the Plzeň branch, head of the Group's largest branch in Prague as well as the head of the entire Client Service Department. Since April 2006, he has been head of the Group's Client Division. On 1 April 2006 he became a member of the Board of Directors of Fio, družstevní záložna and on 3 May 2010 Chairman of the Board of Directors of Fio, družstevní záložna. His key responsibilities as head of the Client Service Department predominantly involved ensuring proper operation of branches, managing customer relations and product range administration. Since 24 September 2014, Mr Polka has been Director of the Company's Credit Division. He has been a member of the Board of Directors of the Company since 25 March 2015.

## G. Persons Responsible for the Annual Report

Jan Sochor, birth certificate no. 690222/0050, residing at Prague 1, Opletalova 30, Postal Code 110 00, Chairman of the Board of Directors of Fio banka, a.s., holds responsibility for the annual report.

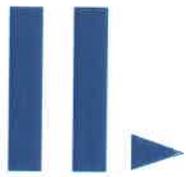
The financial statements were audited by:

Deloitte Audit s.r.o., corporate ID: 49620592, Italská 2581/67, Vinohrady, 120 00 Prague 2.

In Prague on 27 April 2020

Jan Sochor  
Chairman of the Board of Directors

Marek Polka  
Member of the Board of Directors



# Auditor's Report

## **INDEPENDENT AUDITOR'S REPORT** To the Shareholders of Fio banka, a.s.

Having its registered office at: V Celnici 1028/10, 117 21 Praha 1

### **Report on the Audit of the Financial Statements**

#### Opinion

We have audited the accompanying financial statements of Fio banka, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2019, and the profit and loss account and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Fio banka, a.s. as of 31 December 2019, and of its financial performance for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

#### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Related audit procedures
<p><b>Provisions for amounts due from clients</b></p>	
<p>(Notes 3.2.1 and 4.4. to the Financial Statements)</p>	<p>We evaluated whether internal policies for recognising provisions for loans are set.</p>
<p>As of 31 December 2019, gross amounts due from clients (hereinafter "loans") were CZK 21,008,930 thousand against which provisions for loans (hereinafter "provisions") of CZK 860,622 thousand were recorded.</p>	<p><u>Testing of internal controls</u></p> <p>We tested the design and operating effectiveness of the key internal controls to determine which loans are impaired and provisions for those assets. Our procedures included testing:</p>
<p>The provisions are determined either (i) individually for significant credit impaired exposures (stage 3 defaulted) or (ii) using statistical models for performing loans (stage 1&amp;2).</p>	<ul style="list-style-type: none"> <li>• System-based and manual controls over the timely identification and recognition of provisions for loans;</li> <li>• Controls over the provision calculation and recording;</li> <li>• Controls over collateral valuation estimate;</li> <li>• The governance process of management validation of provision calculations; and</li> <li>• IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.</li> </ul>
<p>Because of the significance of professional judgements and the size of loans, the audit of provisions is a key audit matter.</p>	
<p>The most significant judgements are:</p>	
<ul style="list-style-type: none"> <li>• Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.</li> <li>• Timely identification of exposures with a significant increase in credit risk and credit impaired exposures.</li> <li>• Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures.</li> </ul>	<p><u>Assumptions used in the expected credit loss models</u></p> <p>We assessed, in cooperation with our specialists, the methodology of the models. We assessed whether the modelling assumptions considered all relevant risks, were reasonable in light of historical experience and forward outlook, economic climate, and the circumstances of the customers. We performed analytical procedures on a portfolio basis.</p>
	<p><u>Identification of exposures with a significant increase in credit risk and credit impaired loans</u></p>
	<p>In cooperation with our specialists, we evaluated assumptions used for staging models and we recalculated the staging on a portfolio basis.</p>
	<p>We tested a sample of loans (including loans that had not been classified by management as stage 3) to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified in a timely manner.</p>
	<p><u>Provisions for individually assessed credit impaired loans</u></p>
	<p>The Bank determines provisions individually for significant credit impaired exposures (stage 3 defaulted).</p>
	<p>We selected a sample of loans and, where we deemed them to be impaired, tested the amount of provisions recorded by the Bank in terms of loan categorisation, expected recovery and collateral held. In some cases, we used our own industry experts, particularly in respect of commercial real estate, to assess the appropriateness of valuations and estimates used by the Company. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to evaluate management estimate.</p>
	<p>We performed analytical procedures and benchmarking.</p>

Key audit matter	Related audit procedures
<b>Interest and fee income recognition</b>	
<p>(Notes 3.9, 4.17 and 4.18 to the Financial Statements)</p> <p>For the year ended 31 December 2019 the interest income and similar income amounted to CZK 2,919,667 thousand. Total fee and commission income for the same period amounted to CZK 602,839 thousand. With the main source being provided loans, client deposits and client transactions, these are the main contributors to the income of the Company affecting the profitability.</p> <p>Interest income and fee income are recognised in the profit and loss account in the period to which they relate on an accrual basis. Loan interest is accrued on a daily basis. Fees for services provided are recognised when the service is provided and are presented as fee and commission income. Fees for the execution of an act are recognised when the act has been completed and are presented as fee and commission income.</p> <p>Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording resulted in this matter being identified as a key audit matter.</p>	<p>We tested the design and operating effectiveness of the key internal controls and focused on:</p> <ul style="list-style-type: none"> <li>• Assessment of interest/fees recognition;</li> <li>• Interest/fee inputs on client loans and deposits, including authorisation of the changes in the interest and fee price list and authorisation of non-standard interest/fees;</li> <li>• IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists; and</li> <li>• We evaluated the accounting treatment performed by the Company in respect of fees charged to clients to determine whether the methodology complies with the requirements of the relevant accounting standard.</li> </ul> <p>We focused our testing on challenging the correct classification of interest income and fee income.</p> <p>On a sample basis, we checked the correctness of the calculation of interest income for the main types of provided loans to assess the completeness and accuracy of data used for the calculation. We also reviewed the correctness of accounting for the main types of fees.</p> <p>We performed analytical procedures and benchmarking.</p>

#### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the Financial Statements does not cover the other information. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the Financial Statements is, in all material respects, consistent with the Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

#### Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Financial Statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Report on Relations among Related Entities (the "Report on Relations")**

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of Fio banka, a.s. for the year ended 31 December 2019 which is included in this annual report on pages 74 to 83. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Fio banka, a.s. for the year ended 31 December 2019 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

### **Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

#### Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on the basis of a tender on 23 October 2018 and our total uninterrupted engagement has lasted for 10 years.

#### Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 30 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

#### Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

In Prague on 30 April 2020

Audit firm:

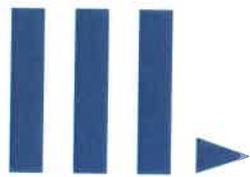
Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

David Batal  
registration no. 2147





# **The Company's Financial Statements for the Year Ended 31 December 2019**

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

**Name of the Company:** Fio banka, a.s.  
**Registered Office:** V Celnici 1028/10, 117 21 Praha 1  
**Legal Status:** Joint Stock Company  
**Corporate ID:** 618 58 374

### Components of the Financial Statements:

**Balance Sheet**

**Off Balance Sheet Accounts**

**Profit and Loss Account**

**Statement of Changes in Equity**

**Notes to the Financial Statements**

**These financial statements were prepared on 30 April 2020.**

<b>Statutory body of the reporting entity:</b>	<b>Signature</b>
Jan Sochor Chairman of the Board of Directors	
Josef Valter Member of the Board of Directors	

Business name of the entity Fio banka, a.s.  
Registered office of the entity Praha 1, V Celnici 1028/10, PSČ 11721  
Corporate ID 61858374

Balance sheet as of 31 December 2019 in CZK thousand		Current period			Prior period	
No.	Text	Line	Gross	Adjustment	Net	Net
1.	<b>Cash in hand and balances with central banks</b>	1	118 147 694	0	118 147 694	101 908 472
2.	<b>State zero-coupon bonds and other securities eligible for refinancing with the CNB</b>	2	0	0	0	0
2.a)	State securities	3	0	0	0	0
2.b)	Other	4	0	0	0	0
3.	<b>Amounts due from banks and cooperative credit unions</b>	5	2 097 265	0	2 097 265	1 810 201
3.a)	Repayable on demand	6	1 700 990	234	1 700 756	1 612 983
3.b)	Other receivables	7	396 509	0	396 509	197 218
4.	<b>Amounts due from clients</b>	8	21 008 930	860 622	20 148 308	15 133 792
4.a)	Repayable on demand	9	362 420	91 716	270 704	196 673
4.b)	Other receivables	10	20 646 510	768 906	19 877 604	14 937 119
5.	<b>Debt securities</b>	11	4 358 351	0	4 358 351	4 334 763
5.a)	Issued by Government institutions	12	4 358 351	0	4 358 351	4 334 763
5.b)	Issued by other entities	13	0	0	0	0
6.	<b>Shares, share certificates and other equity investments</b>	14	172 494	0	172 494	104 841
7.	<b>Participation interests with substantial influence</b>	15	0	0	0	0
	of which: in banks	16	0	0	0	0
8.	<b>Participation interests with controlling influence</b>	17	159 992	0	159 992	159 352
	of which: in banks	18	0	0	0	0
9.	<b>Intangible fixed assets</b>	19	34 667	30 465	4 202	2299
9.a)	Start-up costs	20	0	0	0	0
9.b)	Goodwill	21	-1 143	-1 143	0	-148
10.	<b>Tangible fixed assets</b>	22	328 268	84 390	243 878	122 15
	Land and buildings for operating activities	23	256 349	42622	213 727	0
11.	<b>Other assets</b>	24	1 377 717	1 531	1 376 186	991798
12.	<b>Receivables for subscribed capital</b>	25	0	0	0	0
13.	<b>Prepayments and accrued income</b>	26	62 017	0	62 017	41 792
	<b>TOTAL ASSETS</b>	27	147 747 395	977 008	146 770 387	124 499 525
1.	<b>Amounts owed to banks and cooperative credit unions</b>	28			233 134	236 590
1.a)	Repayable on demand	29			233 134	236 544
1.b)	Other payables	30			0	46
2.	<b>Amounts owed to clients</b>	31			140 442 137	120 583 239
2a)	Repayable on demand	32			136 106 204	116 503 504
2b)	Other payables	33			4 335 933	4 079 735
3.	<b>Payables from debt securities</b>	34			0	0
3a)	Issued debt securities	35			0	0
3b)	Other payables from debt securities	36			0	0
4.	<b>Other liabilities</b>	37			1 125 499	731 606
5.	<b>Deferred income and accrued expenses</b>	38			0	0
6.	<b>Reserves</b>	39			425 804	216 031
6.a)	Reserves for pensions and similar liabilities	40			0	0
6.b)	Reserves for taxes	41			423 721	214 463
6.c)	Other reserves	42			2 083	1 568
7.	<b>Subordinated liabilities</b>	43			90 000	90 000
8.	<b>Share capital</b>	44			760 000	760 000
8.a)	Share capital paid up	45			760 000	760 000
8.b)	Treasury shares	46			0	0
8.c)	Changes in share capital	47			0	0
9.	<b>Share premium</b>	48			0	0
10.	<b>Reserve funds and other funds from profit</b>	49			0	0
10.a)	Mandatory reserve funds and risk funds	50			0	0
10.b)	Other reserve funds	51			0	0
10.c)	Other funds from profit	52			0	0
11.	<b>Revaluation reserve</b>	53			0	0
12.	<b>Capital funds</b>	54			0	0
13.	<b>Gains or losses from revaluation of</b>	55			28 537	19 904
13.a)	Assets and liabilities	56			28 537	19 904
13.b)	Hedging derivative instruments	57			0	0
13.c)	Retranslation of equity holdings	58			0	0
14.	<b>Retained earnings or accumulated losses brought forward</b>	59			1 862 156	833 842
15.	<b>Profit/(loss) for the period</b>	60			1 803 120	1 028 313
	<b>TOTAL LIABILITIES</b>	61			146 770 387	124 499 525

Off balance sheet accounts as of 31 December 2019  
in CZK thousand

No.	Text	Current period	Prior period
1.	Issued commitments and guarantees	39 280 745	22 508 151
2.	Provided collateral		
3.	Amounts due from spot transactions		
4.	Amounts due from term transactions	19 546 923	14 526 721
5.	Amounts due from option transactions		
6.	Receivables written off		
7.	Assets provided into custody, administration and safe-keeping		
8.	Assets provided for management		
9.	Accepted commitments and guarantees		
10.	Received pledges and collateral	134 982 321	112 283 300
11.	Amounts owed from spot transactions		
12.	Amounts owed from term transactions	19 600 641	14 521 460
13.	Amounts owed from option transactions		
14.	Assets received into custody, administration and safe-keeping	46 316 035	40 153 929
15.	Assets received for management	56 096	92 227

Profit and loss account for the year ended 31 December 2019  
in CZK thousand

No.	Text	Line No.	Current period	Prior period
<b>1.</b>	<b><i>Interest income and similar income</i></b>	<b>PL 1</b>	<b>1 562 151</b>	<b>1 562 151</b>
	Interest income from debt securities	PL2	57 352	57 352
<b>2.</b>	<b><i>Interest expense and similar expense</i></b>	<b>PL3</b>	<b>259 190</b>	<b>259 190</b>
	Interest expense from debt securities	PL4	2 153	2 153
<b>3.</b>	<b><i>Income from shares and participation interests</i></b>	<b>PL5</b>	<b>1 221</b>	<b>1 221</b>
3.a.	Income from participation interests with substantial influence	PL6	0	0
3.b.	Income from participation interests with control. influence	PL7	0	0
3.c.	Income from other shares and participation interests	PL8	1 221	1 221
<b>4.</b>	<b><i>Commission and fee income</i></b>	<b>PL9</b>	<b>594 913</b>	<b>594 913</b>
<b>5.</b>	<b><i>Commission and fee expense</i></b>	<b>PL10</b>	<b>276 685</b>	<b>276 685</b>
<b>6.</b>	<b><i>Net profit or loss on financial operations</i></b>	<b>PL11</b>	<b>591 716</b>	<b>591 716</b>
<b>7.</b>	<b><i>Other operating income</i></b>	<b>PL12</b>	<b>14 035</b>	<b>14 035</b>
<b>8.</b>	<b><i>Other operating expenses</i></b>	<b>PL13</b>	<b>72 829</b>	<b>72 829</b>
<b>9.</b>	<b><i>Administrative expenses</i></b>	<b>PL14</b>	<b>677 454</b>	<b>677 456</b>
9.a.	Staff costs	PL15	42 149	42 149
9.a.1.	of which: social security and health insurance	PL16	10 334	10 334
9.b.	Other administrative expenses	PL17	635 305	635 307
<b>10.</b>	<b><i>Release of reserves and provisions for tangible and intangible fixed assets</i></b>	<b>PL18</b>	<b>0</b>	<b>0</b>
	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	PL19	7 973	7 973
<b>11.</b>	<b><i>Release of provisions and reserves for receivables and guarantees, recoveries of receivables written off</i></b>	<b>PL20</b>	<b>0</b>	<b>0</b>
	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	PL21	297 092	297 092
<b>12.</b>	<b><i>Release of provisions for participation interests</i></b>	<b>PL22</b>	<b>0</b>	<b>0</b>
	Loss on the transfer of participation interests, charge for and use of provisions for participation interests	PL23	0	0
<b>13.</b>	<b><i>Release of other reserves</i></b>	<b>PL24</b>	<b>0</b>	<b>0</b>
<b>14.</b>	<b><i>Charge for and use of other reserves</i></b>	<b>PL25</b>	<b>-80 000</b>	<b>-80 000</b>
<b>15.</b>	<b><i>Share of profits/(losses) of subsidiaries and associates</i></b>	<b>PL26</b>	<b>4 074</b>	<b>4 074</b>
<b>16.</b>	<b><i>Profit/(loss) for the period from ordinary activities before taxes</i></b>	<b>PL27</b>	<b>1 256 887</b>	<b>1 256 885</b>
<b>17.</b>	<b><i>Extraordinary income</i></b>	<b>PL28</b>	<b>0</b>	<b>0</b>
<b>18.</b>	<b><i>Extraordinary expenses</i></b>	<b>PL29</b>	<b>0</b>	<b>0</b>
<b>19.</b>	<b><i>Profit/(loss) for the period from extraordinary activities before taxes</i></b>	<b>PL30</b>	<b>0</b>	<b>0</b>
<b>20.</b>	<b><i>Income tax</i></b>	<b>PL31</b>	<b>228 572</b>	<b>228 572</b>
<b>21.</b>	<b><i>Net profit/(loss) for the period</i></b>	<b>PL32</b>	<b>1 028 315</b>	<b>1 028 313</b>

Statement of changes in equity  
in CZK thousand

	Share capital	Reserve funds	Valuation gains or losses	Retained earnings/ (loss) brought forward	Profit or loss in the approval process	Profit (loss) for the period	Total
Balance at 1 January 2018	760 000	0	16 309	474 486	408 214		1 659 009
Changes in accounting policies FX differences and valuation differences not included in profit or loss			3 595	-48 858			
Net profit/loss for the period				408 214	-408 214	1 028 313	
Transfers to funds				833 842	0		
Balance at 31 December 2018	760 000	0	19 904			1 028 313	2 642 059
Balance at 1 January 2019	760 000	0	19 904		1 028 313		2 642 059
FX differences and valuation differences not included in profit or loss			8 633				
Net profit/loss for the period				1 028 313	-1 028 313	1 803 120	
Transfers to funds				1 862 156	0		
Balance at 31 December 2019	760 000	0	28 537			1 803 120	4 453 813

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**Name of the Company:** Fio banka, a.s.  
**Registered Office:** V Celnici 1028/10, 117 21 Prague 1  
**Legal status:** Joint Stock Company  
**Corporate ID:** 618 58 374

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## 1. GENERAL INFORMATION

### 1.1. Incorporation and Description of the Business

Fio banka, a.s. (hereinafter the "Company" or the "Bank") was formed by a single Memorandum of Association on 20 June 1994 (under the former name Fio, burzovní společnost, a.s.) and was incorporated following its registration in the Register of Companies in Prague on 31 August 1994.

The Company's business activity is in line with the provisions of Banking Act No. 21/1992 Coll., as amended, and the licence granted by the Czech National Bank. The subject of the Company's business activity involves:

- Undertaking the activities listed in Section 1 (1) of the Banking Act as follows:

- a) Acceptance of deposits from the general public;
- b) Extension of credit; and

- Undertaking the activities listed in Section 1 (3) of the Banking Act as follows:

- a) Investing in securities on the Company's own account;
- b) Finance lease;
- c) Payments and clearing;
- d) Issuance and administration of payment facilities, e.g. credit cards and traveller's cheques;
- e) Issuance of guarantees;
- f) Opening of letters of credit;
- g) Collection services;
- h) Provision of investment services within the scope of principal investment services.

Within the scope of principal investment services including:

- Under Section 4 (2) (a) of the Capital Market Undertaking Act No. 256/2004 Coll., as amended (hereinafter referred to as the "Capital Market Undertaking Act"), receipt and provision of instructions relating to investment instruments, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (b) of the Capital Market Undertaking Act, performance of instructions relating to investment instruments to a customer's account, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (c) of the Capital Market Undertaking Act, proprietary trading with investment instruments, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (d) of the Capital Market Undertaking Act, discretionary management of individual portfolios under a contractual arrangement with the client if this portfolio includes defined investment instruments, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;
- Under Section 4 (2) (e) of the Capital Market Undertaking Act, investment advisory concerning investment tools, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (2) (g) of the Capital Market Undertaking Act, underwriting of investment instruments or their placement with the obligation to issue, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;
- Under Section 4 (2) (h) of the Capital Market Undertaking Act, underwriting of investment instruments issues or their placement without the obligation to issue, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;

and within the scope of additional investment services

- Under Section 4 (3) (a) of the Capital Market Undertaking Act, custody and administration of investment tools including related services, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (3) (b) of the Capital Market Undertaking Act, provision of loans or borrowings to clients so as to facilitate trading with the investment tool in which the loan or borrowing provider participates, in respect of investment instruments as defined in Section 3 (1) (a), (b) of the Capital Market Undertaking Act;
- Under Section 4 (3) (c) of the Capital Market Undertaking Act, provision of advisory services related to the capital structure, industrial strategies and related issues, as well as provision of advisory services and services related to the transformation or transfers of companies;
- Under Section 4 (3) (d) of the Capital Market Undertaking Act, provision of investment recommendation and analyses of investment opportunities or similar general recommendation related to investment tool trading, in respect of investment instruments as defined in Section 3 (1) (a), (b) and (d) through (k) of the Capital Market Undertaking Act;
- Under Section 4 (3) (e) of the Capital Market Undertaking Act, execution of foreign exchange operations related to the provision of investment services;
  - i) Financial brokerage;
  - k) Foreign exchange services;
  - l) Provision of banking information;
  - m) Proprietary trading or trading on a client's account with foreign currencies and gold;
  - n) Rental of safe-deposit boxes; and
  - o) Activities that directly relate to the activities in the banking licence.

Company's share capital:	CZK 760,000 thousand
Balance sheet date:	31 December 2019
Financial statements prepared on:	27 April 2020
Accounting period:	Calendar year
Currency used in the financial statements:	Czech crown (CZK)

The following table shows individuals and legal entities with an equity interest greater than 20 percent and the amount of their equity interest:

Shareholder	Ownership percentage
Fio holding, a.s., V Celnici 1028/10, Postal Code 117 21, Prague 1	100%
<b>Total</b>	<b>100%</b>

On 31 October 2014, the Company, by means of its organisational branch Fio banka, a.s., pobočka zahraničnej banky (established in Slovakia) acquired part of the business of Fio o.c.p., a.s., in line with the decisions of the Czech National Bank dated 8 October 2014, the National Bank of Slovakia dated 9 October 2014 as well as the decision of the sole shareholder of Fio o.c.p., a.s. dated 31 October 2014, whereby the sole shareholder (the Company) acting in the capacity of the General Meeting approved concluding the respective Contract for the sale of part of business. On 24 August 2017, the Contract on transferring the shares of Fio o.c.p. was concluded based on which a 100% equity investment in Fio o.c.p. was transferred.

## 1.2. Year-on-Year Changes and Amendments to the Register of Companies

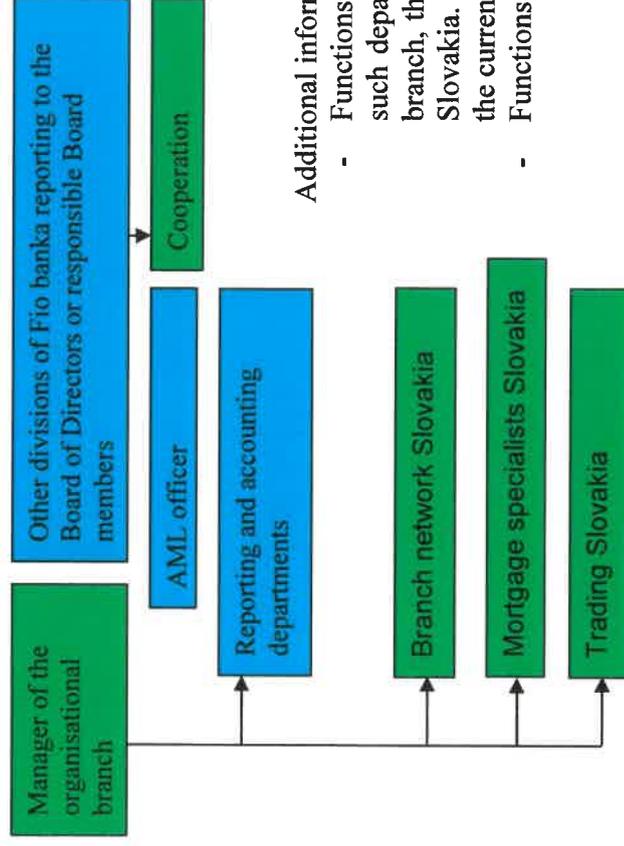
In the year ended 31 December 2019, the following changes were made in the Register of Companies held by the Municipal Court in Prague in respect of Fio banka, a.s. (in chronological order):

- On 20 March 2019, the following changes were made:
  - Petr Marsa was removed as Chairman of the Supervisory Board (position terminated: 20 February 2019);
  - Romuald Kopún was removed as Vice-Chairman of the Supervisory Board (position terminated: 20 February 2019);
  - Ján Franek was removed as Member of the Supervisory Board (position terminated: 20 February 2019);
  - Romuald Kopún was recorded as new Chairman of the Supervisory Board (position originated: 20 February 2019);
  - Petr Marsa was recorded as Vice-Chairman of the Supervisory Board (position originated: 20 February 2019); and
  - Ján Franek was recorded as Member of the Supervisory Board (position originated: 20 February 2019).

In the year ended 31 December 2019, no changes were made in the Register of Companies of Slovakia held by the District Court in Bratislava I in respect of the principal activity Fio banka, a.s pobočka zahraničnej banky.



**1.3.2. Fio banka, a.s., pobočka zahraničnej banky**



**Additional information:**

- Functions in blue boxes are managed centrally from the Czech Republic. If such department or function reports to the manager of the organisational branch, this relation only applies to the activities of the foreign branch in Slovakia. More detailed specification of “other divisions” is disclosed in the current organisational structure of Fio banka, a.s.
- Functions in green boxes are performed directly in the Slovak Republic.

#### 1.4. Group Identification

The Company is part of the Fio financial group.

#### 1.5. Board of Directors and Supervisory Board

	Function	Name
<b>Board of Directors</b>	Chairman	Jan Sochor
	Member	Josef Valter
	Member	Jan Bláha
	Member	Marek Polka
	Member	Filip Novotný
<b>Supervisory Board</b>	Chairman	Romuald Kopún
	Vice-Chairman	Petr Marsa
	Member	Ján Franek

Acting on behalf of the Company by the Board of Directors is performed jointly by the Chairman and Vice-Chairman or by the Vice-Chairman and another Vice-Chairman or by the Chairman with a Board member or by the Vice-Chairman with a Board member.

## **2. PRINCIPLES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS**

The Company's accounting books and records are maintained and the financial statements were prepared in accordance with Accounting Act 563/1991 Coll., as amended; Regulation 501/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are financial institutions maintaining double-entry accounting records, as amended; and Czech Accounting Standards for financial institutions, as amended.

The financial statements have been prepared in compliance with the accruals principle whereby transactions and other facts are recognised when they arise and accounted for in the period to which they relate. The financial statements have been prepared on a historical cost valuation basis, with the exception of selected financial instruments, which are measured at fair value. Assets which are not remeasured to fair value are reported in net recoverable amount. The accounting records adhere to the prudence concept and the going concern assumption.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the amounts of assets and liabilities and contingent assets and liabilities reported at the date of the financial statements and the amounts of revenues and expenses reported in the relevant reporting period. These estimates are based on the information available at the balance sheet date and may differ from actual results.

These financial statements are presented in thousands of Czech crowns (CZK '000).

The financial statements have been prepared as of 31 December 2019.

These financial statements are unconsolidated.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies adopted in the preparation of the financial statements are set out below.

#### **3.1. Recognition Date**

The date of the recognition of individual transactions is principally the date of payment or receipt of cash, the day of purchase or sale of foreign currencies/securities, the date on which a payment is made or an amount is collected from the client's account, the day of issuing an order to the correspondent to make a payment, the day of settlement of the Company's orders with the CNB Clearing Centre, the day on which funds are credited according to a report from the Company's correspondent ('a report' is taken to mean a report in SWIFT, a bank notice, medium take-over, account statement, or other documents as appropriate), the trade date and the settlement date relating to transactions with securities, foreign currencies, options or other derivatives, the date of issuance or acceptance of a guarantee or loan commitment, and the date of accepting assets into custody.

#### **3.2. Financial Assets**

In line with Czech accounting regulations, the Company measures financial instruments based on International Accounting Standards.

Upon initial recognition, financial assets are stated at fair value increased or decreased by transaction costs, with the exception of financial assets at fair value through profit or loss.

The Company derecognises a financial asset from its balance sheet when it loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). The Company loses such control if it realises the rights to benefits specified in the contract, the rights expire, or the Company surrenders those rights.

##### **3.2.1. Amounts Due from Banks and Clients, Debt Securities**

Amounts due from banks, from clients and debt securities (debt financial assets) are classified and after initial recognition subsequently measured at:

- Amortised cost;
- Fair value through other comprehensive income;
- Fair value through profit or loss.

Classification is determined based on the characteristics on contractual cash flows of the debt financial asset and the business model in which the financial asset is included:

The Bank distinguishes the following business models:

- Business model whose objective is to retain the financial asset until maturity and collect contractual cash flows;
- Business model whose objective is achieved simultaneously by collecting contractual cash flows and the sale of assets; and
- Business model whose objective is to trade the financial asset.

The Bank assesses whether the contractual cash flows represent solely a repayment of principal and interest on the unpaid portion of principal. Principal is the fair value of the financial asset on initial recognition. Interest reflects the time value of money, interest rate risk related to the unpaid portion of the principal for the specific period of time and other basic risks and expenses related to the provision of a loan as well as the profit margin.

If the financial asset is held within a business model with the objective to hold the financial asset until maturity and to collect contractual cash flows and all these flows simultaneously represent payment of principal and interest on the unpaid part of principal, the financial asset is classified and valued at amortised cost. Income from debt financial assets measured at amortised cost is reported in the profit and loss account under "Net gains or losses from financial operations".

If the financial asset is held within a business model whose objective is achieved simultaneously by collecting contractual cash flows and the sale of assets and all these flows simultaneously represent payment of principal and interest on the unpaid part of principal, the financial asset is classified and valued at fair value through other comprehensive income. Unrealised gains/losses from this remeasurement are reported in other comprehensive income as part of "Valuation gains and losses".

If the financial asset is held within a business model whose objective is to trade the financial asset or the related cash flows do not represent solely payment of principal and interest on the unpaid part of principal, irrespective of the business modal, the financial asset is classified and valued at fair value through profit or loss. Gains/losses from this remeasurement are reported in the profit and loss account as part of "Net profit or loss from financial transactions".

The fair value used for the revaluation of securities is set as the arm's length price promulgated as of the date of determination of the fair value, provided that the Bank proves that the security can be sold for the arm's length price.

In case of publicly tradable debt securities and equity securities, fair values are equal to prices achieved on a public market of OECD countries, provided that the requirements for the liquidity of the securities are met at the same time.

Repo transactions (i.e. the sales of securities with a concurrent commitment to repurchase these securities at an agreed-upon price) or reverse repo transactions (i.e. the purchase of securities with a concurrent commitment to resell these securities) are accounted for as collateralised loans received or provided. The ownership title to securities is passed to the entity providing the loan. Securities transferred within repo transactions continue to be presented as part of securities in the relevant lines of the Company's balance sheet and the amount obtained as a result of transferring securities within repo transactions is recognised under 'Amounts owed to banks' or 'Amounts owed to clients'. Securities received within reverse repo transactions are only presented in off-balance sheet accounts in the line 'Received pledges and collateral'. The loan granted within reverse repo transaction is presented in the line 'Amounts due from banks' or 'Amounts due from clients'. The interest on debt securities transferred within repo transactions is accrued, as opposed to the interest on debt securities obtained within reverse repo transactions.

Income or expense arising from repo transactions or reverse repo transactions as the difference between the selling and purchase price is accrued over the term of the transaction and recorded in 'Interest income and similar income' or 'Interest expense and similar expense' in the profit and loss account.

All debt financial assets held by the Bank as of the balance sheet date are included in the business model with the objective to hold the financial asset until maturity and to collect contractual cash flows and they meet the characteristics of cash flows representing solely repayment of principal and interest on the unpaid part of principal and they are classified and measured at amortised cost.

Debt financial securities are reported in the balance sheet under:

- Amounts due from banks and cooperative credit unions;
- Amounts due from clients; and
- Debt securities.

Debt financial assets are recognised in amounts net of provisions. Provisions from impairment of debt securities are determined based on the model of expected losses based on the requirements of IFRS 9. In order to determine expected losses the Bank divides debt financial assets into three categories based on the level of risk:

- Stage 1 – this category includes debt securities whose credit risk had not significantly increased since initial recognition as of the balance sheet date. Impairment of financial assets is determined as expected credit loss over 12 months after the balance sheet date. Interest income is calculated using the effective interest rate method and it is determined from the gross carrying amount of the asset.
- Stage 2 – this category includes debt securities whose credit risk had significantly increased since initial recognition as of the balance sheet date but default had not occurred. Impairment of financial assets is determined as expected credit loss until maturity. Interest income is calculated using the effective interest rate method and it is determined from the gross carrying amount of the asset.
- Stage 3 – this category includes debt securities in default. Impairment of financial assets is determined as expected credit loss until maturity of the asset. Interest income is calculated using the effective interest rate method and it is determined from the net carrying amount of the asset, taking into account the provision.

A separate category includes purchased or originated credit impaired (POCI) assets. POCI assets are financial assets that are credit impaired already on initial recognition and they are reported in net value throughout the lifetime of the asset without the option of transfer to the other risk categories. Impairment of these financial assets is determined as the expected credit loss until maturity. Income is determined using the effective interest rate adjusted for the credit risk.

As of the balance sheet date and during the reporting period, the Bank did not hold any purchased or originated credit impaired assets in its portfolio.

A material increase in credit risk is considered to be an event where the debtor is in default by 30 or more days since the maturity of the contractual payment.

The Bank considers assets to be impaired if the debtor is in default by 90 or more days since the maturity of the contractual payment. For overdraft credit products, the Bank considers assets to be impaired if the debtor is in default by 40 or more days since the maturity of the contractual payment.

Provisions are charged to expenses and they are reported under "Write-offs, charge for, and use of provisions and reserves for receivables and guarantees."

Write-off of irrecoverable receivables is included in "Write-offs, charge for, and use of provisions and reserves for receivables and guarantees." Income from previously written-off financial assets is included in the profit and loss account under "Release of provisions and reserves for receivables and guarantees, recoveries of receivables assigned and recoveries of receivables previously written off."

Default interest on receivables in default is presented in off-balance sheet accounts.

### **3.2.2. Shares, Share Certificates and Other Equity Investments**

Equity financial assets are classified and measured at fair value through profit or loss under "Net profit or loss from financial transactions", unless the Bank decided on initial recognition of this asset to classify and measure it at fair value through other comprehensive income under "Valuation gains and losses" without the option of reclassification of the accumulated change in fair value from other comprehensive income to profit or loss. Dividends from equity securities are always reported in the profit and loss account under "Net profit or loss from financial transactions".

### **3.2.3. Financial Derivatives**

The Bank records all financial derivatives as derivatives held for trading.

Financial derivatives held for trading are stated at fair value under "Other assets" or "Other liabilities" based on the resulting positive/negative fair value. Gains (losses) from changes in fair value are reported in the profit and loss account under "Gains and losses from financial transactions".

### 3.3. Transactions with Securities on behalf of Clients

Securities received by the Company into custody, administration or safe-keeping are recorded at market value and reported within the off balance sheet line 'Assets received into custody, administration and safe-keeping'.

Securities received by the Company for management are recorded at market value and reported within the off balance sheet line 'Assets received for management'. On the balance sheet, liabilities include the Company's payables to clients arising principally from cash received to purchase securities, cash to be refunded to the client, etc.

### 3.4. Participation Interests with Controlling or Substantial Influence

Participation interests with controlling influence refer to investments in an entity in which the Company is a majority shareholder. In such a case, the Company has controlling influence on the entity's management, exercising full control over its activity. The influence is based on the ownership percentage or an agreement or the Articles regardless of the participation interest value.

Participation interests with substantial influence refer to investments in an entity in which the Company has ownership percentage (participation) of at least 20%. In such a case, the Company has substantial influence on the entity's management arising from ownership percentage or an agreement or the Articles regardless of the participation interest value.

Participation interests with controlling and substantial influence are recorded at acquisition cost which also includes direct costs related to the acquisition. At the balance sheet date, the Company measures participation interests using the equity method of accounting. The equity investment recognised at cost on acquisition is revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity.

### 3.5. Charge for Reserves

Reserves represent a probable performance which is uncertain as to the date on which it will arise and as to its amount. The Bank recognises a reserve when:

- It has a present performance obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation whereby "probable" refers to the probability of more than 50 percent; and
- A reliable estimate as to the amount of the obligation can be made.

### 3.6. Tangible and Intangible Assets

Tangible and intangible assets are recognised at historical cost and depreciated over the estimated useful life using the straight-line method.

	Depreciation method	Number of months
Intangible outcomes of development	Straight-line	36
Software	Straight-line	36
Technical improvements on buildings	Straight-line	108
Computer systems	Straight-line	36
Vehicles	Straight-line	36
Furniture and fixtures	Straight-line	36
Other	Straight-line	36-120

Intangible assets with an acquisition cost lower than CZK 60 thousand and tangible assets with an acquisition cost greater than CZK 40 thousand and with useful life not exceeding one year are expensed in the period in which they were acquired.

### **3.7. Foreign Currency Translation**

Transactions denominated in foreign currencies are recorded in the local currency at the exchange rate prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies and foreign exchange spot transactions before their due dates are translated into the local currency at the exchange rate of the Czech National Bank prevailing on the balance sheet date.

The resulting gain or loss arising from the translation of assets and liabilities denominated in foreign currencies, except for participation interests in foreign currencies, is presented in the profit and loss account line 'Net profit or loss on financial operations'.

### **3.8. Taxation**

The income tax base is calculated using the operating result of the current period increased by tax non-deductible expenses and net of income that is not subject to the income tax which is further adjusted by tax relief and tax credit, if any. Tax receivables and payables are calculated using the tax rate effective at the year-end and recognised in the amount of the estimated payment to be made to the relevant tax authority.

Deferred tax is based on all temporary differences between the carrying and tax values of assets and liabilities using the anticipated tax rate effective for the subsequent period. Deferred tax assets are only recognised and accounted for if no doubt exists as to their recovery in the following reporting periods.

### **3.9. Interest Income and Expense**

Interest income and expense is presented in the profit and loss account when earned or incurred, on an accruals basis. Interest on loans and deposits is accrued on a daily basis. Interest income and expense also involve a discount or a bonus, or other differences between the acquisition cost of the interest-bearing instrument and its value at the maturity date which is determined using the effective interest rate method.

The accruals principle does not apply to default interest on distressed receivables.

### **3.10. Use of Estimates**

The presentation of financial statements in line with Czech Accounting Standards requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date, the information disclosed on contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period.

These estimates, which predominantly involve determining the fair value of financial instruments, measurement of intangible assets, impairment of assets and reserves, are based on the information available at the balance sheet date.

Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it.

### **3.11. Lease Measurement under IFRS 16**

#### **3.11.1. IFRS 16 Accounting Policy (Effective from 1 January 2019)**

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17.

Policies applicable from 1 January 2019

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an

operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

### **3.11.2. Accounting Policy Effective until 31 December 2018**

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

### **3.11.3. Initial Application of IFRS 16**

In the current year, the Company has applied IFRS 16 that is effective for annual periods that begin on or after 1 January 2019.

It introduces significant changes to lessee accounting and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets, if such reporting exceptions are applied.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach, which does not allow restatement of the comparative information, which continues to be recognised under IAS 17 and IFRIC 4.

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on 1 January 2019. In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Applying IFRS 16, for all leases (except as noted below), the Company:

- (a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16, which are newly presented on the balance sheet lines Tangible fixed assets, Land and buildings for operating activities and Other liabilities;
- (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss on lines Write-offs, charge for and use of provisions and reserves for tangible and intangible fixed assets and Interest expense and similar expense.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of lease expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other expenses' in profit or loss.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases under IAS 17.

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

The right-of-use asset and lease liability have been recognised pursuant to IFRS 16 since 1 January 2019.

Financial impact of initial application of IFRS 16

The Company recognised right-of-use assets and lease liabilities of CZK 208 million upon transition to IFRS 16. The weighted average of the lessee incremental borrowing rate applied to lease liabilities reported in the statement of financial position as of 1 January 2019 is 1.34%.

#### 4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

##### 4.1. Cash in Hand and Balances with Central Banks

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Cash in hand	219 015	211 703
Accounts at central banks	1 104 085	1 641 271
Loans provided – reverse repo transactions	115 987 636	98 735 029
Cash in ATMs	836 958	1 320 469
<b>Total</b>	<b>118 147 694</b>	<b>101 908 472</b>

As of 31 December 2019, loans arising from reverse repo transactions were secured by debt securities in the fair value of CZK 115,163,000 thousand (CZK 96,865,211 thousand as of 31 December 2018).

##### 4.2. State Zero-coupon Bonds and Other Securities Eligible for Refinancing with the ČNB

As of 31 December 2018 and 31 December 2019, the Company held no state treasury bills.

##### 4.3. Amounts Due from Banks and Cooperative Credit Unions

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Current accounts	1 700 756	1 698 583
Term deposits	396 509	197 218
<b>Total amounts due from banks and cooperative credit unions</b>	<b>2 097 265</b>	<b>1 895 801</b>

All amounts due from banks and cooperative credit unions are categorised as Stage 1. No provision was recognised in respect of these assets due to immateriality.

##### 4.4. Amounts Due from Clients

###### By contractual maturity

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Short-term loans	9 850 705	7 751 800
Medium-term loans	1 728 280	1 301 233
Long-term loans	8 569 323	6 080 759
<b>Total amounts due from clients</b>	<b>20 148 308</b>	<b>15 133 792</b>

###### By territory

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Czech Republic	16 792 414	12 711 228
Slovakia	3 246 985	2 330 008
Other countries	108 909	92 556
<b>Total amounts due from clients</b>	<b>20 148 308</b>	<b>15 133 792</b>

###### By type of client

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Individuals	7 160 721	5 197 691
Legal entities	12 987 587	9 936 101
<b>Total amounts due from clients</b>	<b>20 148 308</b>	<b>15 133 792</b>

Notes to the Financial Statements for the Year Ended 31 December 2019

By segment

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Households	7 118 344	5 197 691
Real estate	3 780 520	2 512 319
Finance	354 241	437 828
Other personal services	2 627 721	6 627 114
Sundry	6 267 482	358 840
<b>Total amounts due from clients</b>	<b>20 148 308</b>	<b>15 133 792</b>

By classification

2019

	31 Dec 2019			(CZK '000)	
	Gross	Provision	Net	31 Dec 2018	
				Net	
Stage 1	18 017 449	51 169	17 966 280	12 675 088	
Stage 2	815 131	21 750	793 381	1 581 110	
Stage 3	2 176 350	787 703	1 388 647	877 594	
<b>Total amounts due from clients</b>	<b>21 008 930</b>	<b>860 622</b>	<b>20 148 308</b>	<b>15 133 792</b>	

2018

	31 Dec 2018			(CZK '000)	
	Gross	Provision	Net	31 Dec 2017	
				Net	
Stage 1	12 704 646	29 558	12 675 088	11 411 684	
Stage 2	1 669 575	88 465	1 581 110	652 339	
Stage 3	1 314 277	436 683	877 594	1 082 891	
<b>Total amounts due from clients</b>	<b>15 688 498</b>	<b>554 706</b>	<b>15 133 792</b>	<b>13 146 914</b>	

The following table shows the reasons for changing the gross value by risk category:

	Stage 1	Stage 2	Stage 3	Total
<b>Gross value at 31 Dec 2018</b>	<b>12 704 646</b>	<b>1 669 575</b>	<b>1 314 277</b>	<b>15 688 498</b>
Change of provision due to				
- Transfer to Stage 1	17 137	-15 474	-1 663	0
- Transfer to Stage 2	-180 175	204 403	-24 228	0
- Transfer to Stage 3	-118 919	-548 746	667 665	0
- Newly originated amounts due from clients	5 702 875	46 976	62 921	5 812 772
- Derecognised amounts due from clients	-1 017 131	-477 034	-189 957	-1 684 122
- Increase of receivables without change of stage	1 872 565	11 665	357 744 <sup>i</sup>	2 241 974
- Decrease of receivables without change of stage	-963 549	-76 234	-10 409	-1 050 192
<b>Gross value at 31 Dec 2019</b>	<b>18 017 449</b>	<b>815 131</b>	<b>2 176 350</b>	<b>21 008 930</b>

The following table shows the reasons for changing provisions by risk category.

	Stage 1	Stage 2	Stage 3	Total
<b>Provision balance at 31 Dec 2018</b>	<b>29 558</b>	<b>88 465</b>	<b>436 683</b>	<b>554 706</b>
Change of provision due to				
- Transfer to Stage 1	9	-3	-6	0
- Transfer to Stage 2	-4 647	6 714	-2 067	0
- Transfer to Stage 3	-9 361	-114 866	124 227	0
- Increase in credit risk	11 715	8 540	218 677	238 932
- Decrease in credit risk	10 479	-637	-188	9 654
- Newly acquired financial assets	39 460	75 061	10 855	125 376
- Derecognised financial assets	-26 044	-41 524	-478	-68 046
- Change in estimates (models)				
<b>Provision balance at 31 Dec 2019</b>	<b>51 169</b>	<b>21 750</b>	<b>787 703</b>	<b>860 622</b>

All receivables/provisions presented as newly originated in Stage 2 and Stage 3 were initially recognised as unimpaired in Stage 1 and the classification deteriorated during the current reporting period. They are not POCI.

<sup>i</sup> It primarily includes the restructuring of loans within one group.

Amounts due from clients are secured by real estate, movable property, securities, receivables from third parties, state guarantees, etc. in the aggregate amount of CZK 19,819,321 thousand as of 31 December 2019 (31 December 2018: CZK 15,418,089 thousand).

During 2019, the Company released provisions against receivables from clients in the amount of CZK 220,076 thousand and created provisions against receivables from clients in the amount of CZK 525,993 thousand and provisions of CZK 0 thousand were sold.

#### 4.5. Debt Securities

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
<b>Debt securities at amortised cost</b>		
Government bonds	4 358 351	4 334 763
Non-government bonds	0	0
<b>Total at amortised cost</b>	<b>4 358 351</b>	<b>4 334 763</b>
<b>Debt securities at fair value through profit or loss</b>		
Non-government bonds	0	0
<b>Total at fair value through profit or loss</b>	<b>0</b>	<b>0</b>
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>Total debt securities</b>	<b>4 358 351</b>	<b>4 334 763</b>

Debt securities in the Company's portfolio were issued predominantly in the Czech Republic.

All debts securities are classified in Stage 1. The provision against debt securities at amortised cost was not reported as of the balance sheet date due to immateriality.

#### 4.6. Shares, Share Certificates and Other Equity Investments

As of 31 December 2019, the Company holds 100 shares of Burza cenných papírů Praha, a.s. with the carrying value of CZK 100 thousand (31 December 2018: CZK 100 thousand), 9 S.W.I.F.T. shares of CZK 1,069 thousand and 597 preference shares of VISA Inc with the carrying value of CZK 35,231 thousand (31 December 2018: CZK 24,572 thousand). The shares of VISA Inc. were obtained by the Company as part of a transformation of VISA Europe in 2016.

The Bank used the option to classify these securities on initial recognition in the portfolio as financial assets at fair value through other comprehensive income without the possibility of reclassifying the accumulated change in fair value from other comprehensive income to profit or loss. The Bank did so since it plans to hold these equity securities in the long term and does not plan trading them.

In 2018, the Company started trading with securities on its own account. As of 31 December 2019, its portfolio included shares and share certificates of CZK 172,494 thousand. The Bank classifies and measures these securities at fair value with subsequent remeasurement to profit or loss.

<b>Shares, Share Certificates and Other Equity Investments</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
Fair value through other comprehensive income	36 402	25 743
Fair value through profit or loss	136 092	79 098
<b>Total</b>	<b>172 494</b>	<b>104 841</b>

**4.7. Participation Interests with Substantial Influence**

2019

					(CZK '000)
Name of the company	Registered office	Acquisition cost	Ownership percentage	Voting rights in %	Valuation at 31 Dec 2019
RM-SYSTÉM, česká burza cenných papírů a.s.	Prague 1, V Celnici 1028/10, Postal Code 117 21	31 705	100	100	34 582
RM-S FINANCE, s.r.o.	Prague 1, V Celnici 1028/10, Postal Code 117 21	991	100	100	1 463
Družstevní záložna PSD	Prague 1, V Celnici 1028/10, Postal Code 117 21	58 744	73.4	73.4	102 468
Fio forexová, s.r.o.	Prague 1, V Celnici 1028/10, Postal Code 117 21	210	100	100	3 464
Fio investiční společnost, a.s.	Prague 1, V Celnici 1028/10, Postal Code 110 00	20 000	100	100	17 104
Fio Consulting, spol. s.r.o.	Prague 1, V Celnici 1028/10, Postal Code 117 21	500	100	100	911
<b>Total</b>		<b>112 150</b>			<b>159 992</b>

2018

					(CZK '000)
Name of the company	Registered office	Acquisition cost	Ownership percentage	Voting rights in %	Valuation at 31 Dec 2018
RM-SYSTÉM, česká burza cenných papírů a.s.	Prague 1, V Celnici 1028/10, Postal Code 117 21	31 705	100	100	32 571
RM-S FINANCE, s.r.o.	Prague 1, V Celnici 1028/10, Postal Code 117 21	991	100	100	1 536
Družstevní záložna PSD	Prague 1, V Celnici 1028/10, Postal Code 117 21	58 744	73.4	73.4	102 571
Fio forexová, s.r.o.	Prague 1, V Celnici 1028/10, Postal Code 117 21	210	100	100	3 100
Fio investiční společnost, a.s.	Prague 1, V Celnici 1028/10, Postal Code 110 00	20 000	100	100	18 955
Fio Consulting, spol. s.r.o.	Prague 1, V Celnici 1028/10, Postal Code 117 21	500	100	100	619
<b>Total</b>		<b>112 150</b>			<b>159 352</b>

Upon acquisition, the Company recognises the acquired share or participation interest at cost. At the balance sheet date, the Company records participation interests at the value established using the equity method of accounting. The equity investment recognised at cost on acquisition is revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity. The revaluation difference at the balance sheet date is presented in the line 'Share of profits/(losses) of subsidiaries and associates'.

In the year ended 31 December 2016, the share capital in the amount of CZK 20,000 thousand was paid for the newly established Fio investiční společnost a.s. This entity was registered in the Register of Companies in 2018.

**4.8. Fixed Assets****4.8.1. Intangible Fixed Assets (Intangible FA)**Cost

	(CZK '000)						
	31 Dec 2017	Additions	Disposals	31 Dec 2018	Additions	Disposals	31 Dec 2019
Software	18 764	1 046	0	19 810	10 007	5 708	24 109
Other intangible FA	11 567	0	0	11 567	134	0	11 701
Goodwill	-1 143	0	0	-1 143	0	0	-1 143
<b>Total</b>	<b>29 188</b>	<b>1 046</b>	<b>0</b>	<b>30 234</b>	<b>10 141</b>	<b>5 708</b>	<b>34 667</b>

Accumulated Amortisation

	(CZK '000)						
	31 Dec 2017	Additions	Disposals	31 Dec 2018	Additions	Disposals	31 Dec 2019
Software	17 952	1 858	0	19 810	1 897	217	21 490
Other intangible FA	8 356	764	0	9 120	1 283	285	10 118
Goodwill	-816	0	179	-995	0	148	-1 143
<b>Total</b>	<b>25 492</b>	<b>2 622</b>	<b>179</b>	<b>27 935</b>	<b>3 180</b>	<b>650</b>	<b>30 465</b>

Net Book Value

	(CZK '000)	
	31 Dec 2018	31 Dec 2019
Software	0	2 619
Other intangible FA	2 447	1 583
Goodwill	-148	0
<b>Total</b>	<b>2 299</b>	<b>4 202</b>

The Company's negative goodwill originated on the acquisition of enterprises. The Company purchased enterprises for a price determined based on an expert's opinion which was lower than the difference between the transferred assets and liabilities.

**4.8.2. Tangible Fixed Assets (Tangible FA)**Cost

	(CZK '000)						
	31 Dec 2017	Additions	Disposals	31 Dec 2018	Additions	Disposals	31 Dec 2019
Vehicles	2 525	632	0	3 157	9 559	7 507	5 209
Lease under IFRS 16	0	0	0	0	256 348	0	256 348
Other tangible FA	43 210	3 916	548	46 578	30 579	10 446	66 711
<b>Total</b>	<b>45 735</b>	<b>4 548</b>	<b>548</b>	<b>49 735</b>	<b>296 486</b>	<b>17 953</b>	<b>328 268</b>

Accumulated Depreciation

	(CZK '000)						
	31 Dec 2017	Additions	Disposals	31 Dec 2018	Additions	Disposals	31 Dec 2019
Vehicles	2 424	336	0	2 760	857	2 190	1 427
Lease under IFRS 16	0	0	0	0	42 622		42 622
Other tangible FA	29 565	5 195	0	34 760	5 749	168	40 341
<b>Total</b>	<b>31 989</b>	<b>5 531</b>	<b>0</b>	<b>37 520</b>	<b>49 228</b>	<b>2 358</b>	<b>84 390</b>

Net Book Value

	(CZK '000)	
	31 Dec 2018	31 Dec 2019
Vehicles	397	3 782
Lease under IFRS 16	0	213 727
Other tangible FA	11 818	26 369
<b>Total</b>	<b>12 215</b>	<b>243 878</b>

In the year ended 31 December 2019, the Company acquired tangible assets in the amount of CZK 7,490 thousand charged directly to expenses (31 December 2018: CZK 5,061 thousand). These assets principally include low-value tangible assets composed of other movable assets and their sets with useful life exceeding one year which are not recognised under fixed assets but are directly expensed.

In 2019, a new international standard, IFRS 16, entered into force, which affected the value of reported tangible fixed assets. The application of IFRS 16 resulted in an increase in the value of tangible fixed assets to CZK 213,727 thousand and depreciation in the amount of CZK 42,622 thousand.

#### 4.9. Other Assets

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Provided deposits and prepayments	616 101	599 404
Receivables from securities markets	455 978	173 630
Estimated receivables	2 516	5 369
Guarantee funds	1 003	1 726
Margin contribution for derivatives trading	41 196	42 633
Positive fair value of open derivatives (FX swap)	35	12 127
Cash in transit	67 675	71 819
Other	191 883	85 160
Provisions	-1 201	-70
<b>Total other assets</b>	<b>1 376 186</b>	<b>991 798</b>

Other assets in the amount of CZK 191,883 thousand principally include prepayments made for corporate income tax in the amount of CZK 150,468 thousand (2018: CZK 62,837 thousand).

Provisions are created against receivables past their due dates by more than one year and presented in the line 'Other'.

The positive fair value of open derivatives is based on the receivable from fixed term transactions amounting to CZK 5,203 thousand (2018: CZK 11,487,371 thousand) and a payable amounting to CZK 5,168 thousand (2018: CZK 11,475,244 thousand).

Cash in transit is predominantly composed of resources for the funding of branches and ATMs.

#### Provided deposits and prepayments

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Fio leasing, a.s., a deposit paid for the lease term	14 617	9 782
Deposits paid to card associations	577 603	567 083
Other	23 881	22 539
<b>Total deposits and prepayments</b>	<b>616 101</b>	<b>599 404</b>

#### 4.10. Prepayments and Accrued Income

As of 31 December 2019, prepayments and accrued income amount to CZK 62,017 thousand predominantly include prepayments for rental in the amount of CZK 4,080 thousand (31 December 2018: CZK 41,792 thousand) and costs of a media campaign in 2020 in the amount of CZK 55,010 thousand.

#### 4.11. Amounts Owed to Banks and Cooperative Credit Unions

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Repayable on demand	233 134	236 544
Other	0	46
<b>Total</b>	<b>233 134</b>	<b>236 590</b>

**4.12. Amounts Owed to Clients**

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
Repayable on demand	136 106 204	116 503 504
Other	4 335 933	4 079 735
<b>Total amounts owed to clients</b>	<b>140 442 137</b>	<b>120 583 239</b>

**4.13. Other Liabilities**

	(CZK '000)	
	31 Dec 2019	31 Dec 2018
A deficit on the fair value of open derivatives (FX swap)	52 647	3 105
Outgoing payments	554 418	502 219
Payables to securities markets	1 023	319
Payables to employees	30 684	2 278
Estimated payables	101 975	53 818
Payables to the state budget	44 300	18 106
Domestic suppliers	25 029	44 017
Foreign suppliers	3 708	7 565
Payables arising from accounting for leases under IFRS 16	213 376	0
Unidentified contributions	15 762	30 246
Other	82 577	69 933
<b>Total other liabilities</b>	<b>1 125 499</b>	<b>731 606</b>

The negative fair value of open derivatives is based on a receivable from fixed term transactions in the amount of CZK 19,541,720 thousand (2018: CZK 3,039,519 thousand) and a payable in the amount of CZK 19,595,473 thousand (2018: CZK 3,042,624 thousand).

The item 'Other' principally involves accounts used for the settlement with card associations in the amount of CZK 77,566 thousand.

Amounts due arising from social security and health insurance contributions

As of 31 December 2019, the amount due arising from the contribution to social security and state employment policy was CZK 4,599 thousand (31 December 2018: CZK 961 thousand). The Company records no payables past their due dates arising from the contribution to social security and state employment policy.

As of 31 December 2019, the amount due arising from health insurance contributions was CZK 5,982 thousand (31 December 2018: CZK 407 thousand). The Company records no payables past their due dates arising from health insurance contributions.

In 2019, a new international standard, IFRS 16, entered into force, which affected the value of other liabilities. By applying the new standard, the bank records increased liabilities arising from the accounting for leases under IFRS 16 in the amount of CZK 213,376 thousand.

**4.14. Reserves**

As of 31 December 2019, reserves in the amount of CZK 425,804 thousand (31 December 2018: CZK 216,031 thousand) principally comprises a reserve for the corporate income tax of CZK 423,721 thousand, a reserve for outstanding vacation days of CZK 1,544 thousand and a reserve for court expenses of CZK 539 thousand.

	31 Dec 2018	Release	Charge	31 Dec 2019
Income tax reserve	214 463	214 463	423 721	423 721
Reserve for court disputes	539	0	0	539
Reserve for outstanding vacation days	1 029	1 029	1 544	1 544
<b>Total</b>	<b>216 031</b>	<b>215 492</b>	<b>425 265</b>	<b>425 804</b>

#### 4.15. Subordinated Liabilities

As of 31 December 2019, the Company records a subordinated liability of CZK 90,000 thousand (2018: CZK 90,000 thousand). This liability bears interest at 15% p. a. with a notice period of 5 years.

#### 4.16. Equity

The Company's share capital comprises 760 thousand ordinary shares with a nominal value of CZK 1 thousand.

As of 31 December 2019, CZK 760 thousand was paid.  
The Company's share capital was fully paid as of 19 December 2014.

In the years ended 31 December 2019 and 31 December 2018, no increase was made in the Company's share capital by the subscription of shares.

As of 31 December 2019 and 31 December 2018, no treasury shares were held by the Company.

Upon initial classification in the portfolio of securities available for sale, securities are revalued against equity accounts, gains or losses from revaluation.

#### Distribution of Profit

Based on a decision of the sole shareholder acting in the capacity of the General Meeting, the following distribution of the 2019 profit was approved:

	(CZK '000)	
	2019	2018
Retained earnings brought forward at the beginning of the period	833 842	474 486
Operating result of prior years	1 028 313	359 356
<b>Retained earnings brought forward at the end of the period</b>	<b>1 862 155</b>	<b>833 842</b>

At the balance sheet date, the Company did not make any decision as to the distribution of profit for the current period.

#### 4.17. Interest Expense and Income

	(CZK '000)	
	2019	2018
Interest on deposits provided to other banks	2 102 571	982 841
Interest on loans provided to clients	707 771	521 958
Interest on debt securities	109 325	57 352
<b>Interest income and similar income</b>	<b>2 919 667</b>	<b>1 562 151</b>
Interest on deposits received from clients	504 770	151 617
Interest on debt securities	858	2 153
Interest on the subordinated liability	13 500	13 500
Other interest and interest fee	0	91 920
Interest expenses arising from IFRS 16	2 577	0
<b>Interest expense and similar expense</b>	<b>521 705</b>	<b>259 190</b>
<b>Net interest income</b>	<b>2 397 962</b>	<b>1 302 961</b>

In the years ended 31 December 2019 and 31 December 2018, uncollected default interest on distressed receivables amounted CZK 173,318 thousand and CZK 113,869 thousand, respectively.

To provide a more accurate presentation, interest income in the amount of CZK 16,590 thousand relating to loans provided for purchasing securities is presented as part of interest on loans provided to clients.

Other interest and interest fee include default interest of CZK 0 thousand. A reserve of CZK 82,093 thousand was created for this interest in 2017 and released in 2018.

In 2019, a new international standard, IFRS 16, entered into force, which affected the value of interest expenses. By applying the new standard, the bank records increased interest expenses arising from the accounting for leases under IFRS 16 in the amount of CZK 2,577 thousand.

#### 4.18. Fees and Commissions

	(CZK '000)	
	2019	2018
Transactions with securities	92 193	96 444
Other investment services	19 582	20 009
Client accounts and loans	264 882	247 295
Fees charged by card associations	226 182	231 165
<b>Total fee and commission income</b>	<b>602 839</b>	<b>594 913</b>
Payment system and card transactions	193 491	240 509
Transactions with securities	33 774	36 176
<b>Total fee and commission expense</b>	<b>227 265</b>	<b>276 685</b>
<b>Net fee and commission income</b>	<b>375 574</b>	<b>318 228</b>

#### 4.19. Net Profit or Loss on Financial Operations

	(CZK '000)	
	2019	2018
Profit/(loss) on securities	3 345	-619
Profit on FX differences	643 970	594 807
Profit (loss) on proprietary trading	12 126	-1 240
Profit/(loss) on currency derivatives	-25 822	-1 232
Profit/(loss) on other operations	817	0
<b>Net profit or loss on financial operations</b>	<b>634 436</b>	<b>591 716</b>

#### 4.20. Other Operating Expenses

Other operating expenses amounting to CZK 93,754 thousand (2018: CZK 72,829 thousand) predominantly include contributions to the Securities Dealers Guarantee Fund, a contribution to the Crisis Resolution Fund, contributions to the Deposit Insurance Fund. In 2019, the expense of the Securities Dealers Guarantee Fund amounted to CZK 2,224 thousand (2018: CZK 2,289 thousand). The expense of the Deposit Insurance Fund for 2019 amounted to CZK 60,774 thousand (2018: CZK 52,508 thousand). A contribution to the Crisis Resolution Fund amounted to CZK 27,668 thousand (2018: CZK 18,016 thousand).

#### 4.21. Administrative Expenses

	(CZK '000)	
	2019	2018
Wages and bonuses	85 518	30 925
Social security and health insurance expenses	21 429	10 334
Other staff costs	1 166	890
<b>Staff costs and bonuses</b>	<b>108 113</b>	<b>42 149</b>
Audit	3 004	4 349
Rental	3 360	57 454
Postage fees	4 408	4 517
Advertising	66 648	67 788
Information resources	4 820	4 212
Outsourced services	300 801	260 520
Other purchased consumables and services	254 526	236 467
<b>Other administrative expenses</b>	<b>637 567</b>	<b>635 307</b>
<b>Total administrative expenses</b>	<b>745 680</b>	<b>677 456</b>

Bonuses to the Company's top management amounted to CZK 56,432 thousand in 2019 (in 2018: CZK 0 thousand).

In 2019, a new international standard, IFRS 16, entered into force, which affected the value of administrative expenses. By applying the new standard, the bank records a decrease in rental arising from the change in accounting for leases under IFRS 16 by CZK 45,109 thousand.

## 4.22. Taxation

### Income Tax Payable

The Company's operating result for the year ended 31 December 2019 consisted of the profit before tax amounting to CZK 2,225,445 thousand (2018: a profit of CZK 1,256,885 thousand).

The table below sets out adjustments to the profit on ordinary activities before tax to arrive at the income tax base:

	(CZK '000)	
	2019	2018
Profit/loss before tax	2 225 445	1 256 885
Expenses not deductible for tax purposes	19 271	15 096
Income not taxable	14 196	137 170
Gifts	60	6 060
Tax base	2 230 460	1 128 751
Tax relief	0	0
Adjustment to the tax payable of prior years	0	0
<b>Total tax payable</b>	<b>423 721</b>	<b>214 463</b>
Change in deferred tax	-1 396	14 109
<b>Total</b>	<b>422 325</b>	<b>228 572</b>

### Deferred Tax

As disclosed in Note 3.10, as of 31 December 2019 the Company records a temporary difference between the tax and net book values of tangible fixed assets, reserves for outstanding vacation days and revaluation of the VISA shares. As of 31 December 2019, the Company records a deferred tax liability of CZK 6,693 thousand (2018: CZK 5,804 thousand). As of 31 December 2019, the Company also records a deferred tax asset of CZK 293 thousand arising from the reserve created for unused vacation days (2018: CZK 196 thousand).

## 4.23. Off-Balance Sheet Transactions

Items recorded on the Company's off-balance sheet accounts include:

- Securities received for management;
- Securities received for custody, administration and safe-keeping; this constitutes the fair value of securities deposited on the accounts of the Company's clients as of the balance sheet date;
- Collateralisation of provided loans;
- Collateralisation of loans from reverse repo transactions;
- Nominal value of open derivatives – receivables and payables arising from currency swaps; and
- Unused credit lines.

## 4.24. Average Number of Employees and Supervisory Board Members

	(number of persons)	
	2019	2018
Employees	53	53
Of which: members of the Board of Directors	5	5
Members of the Supervisory Board	3	3

## 5. Related Party Transactions

Relations with related parties in the Fio Group.

31 December 2019

	(CZK '000)				
	RM-SYSTÉM, česká burza cenných papírů a.s.	Fio forexová s.r.o.	Fio consulting s.r.o.	Družstevní záložna PSD	RM-S FINANCE, s.r.o.
Amounts due from banks and cooperative credit unions	0	0	0	0	0
Other assets	0	95 362	0	0	119
<b>TOTAL ASSETS</b>	<b>0</b>	<b>95 362</b>	<b>0</b>	<b>0</b>	<b>119</b>
Amounts owed to banks and cooperative credit unions	0	0	0	138 464	0
Other payables	53 036	214 976	963	0	24 963
<b>TOTAL LIABILITIES</b>	<b>53 036</b>	<b>214 976</b>	<b>963</b>	<b>138 464</b>	<b>24 963</b>

31 December 2018

	(CZK '000)				
	RM-SYSTÉM, česká burza cenných papírů a.s.	Fio forexová s.r.o.	Fio consulting s.r.o.	Družstevní záložna PSD	RM-S FINANCE, s.r.o.
Amounts due from banks and cooperative credit unions	0	0	0	0	0
Other assets	0	88 570	0	0	42
<b>TOTAL ASSETS</b>	<b>0</b>	<b>88 570</b>	<b>0</b>	<b>0</b>	<b>42</b>
Amounts owed to banks and cooperative credit unions	0	0	0	138 423	0
Other payables	52 550	62 190	688	0	22 465
<b>TOTAL LIABILITIES</b>	<b>52 550</b>	<b>62 190</b>	<b>688</b>	<b>138 423</b>	<b>22 465</b>

1 January – 31 December 2019

	(CZK '000)				
	RM-SYSTÉM, česká burza cenných papírů a.s.	Fio forexová s.r.o.	Fio consulting s.r.o.	Družstevní záložna PSD	RM-S FINANCE, s.r.o.
Interest income	0	0	0	0	0
Interest expense	0	0	0	0	0
Fee and commission income	0	0	0	0	0
Fee and commission expense	-6 156	-83 778	0	0	0
Profit or loss from financial operations	0	0	0	0	0
Other operating income	0	0	0	0	0
Administrative expenses	-2 064	0	-494	0	-265 662
<b>TOTAL</b>	<b>-8 220</b>	<b>-83 778</b>	<b>-494</b>	<b>0</b>	<b>-265 662</b>

1 January – 31 December 2018

	(CZK '000)				
	RM-SYSTÉM, česká burza cenných papírů a.s.	Fio forexová s.r.o.	Fio consulting s.r.o.	Družstevní záložna PSD	RM-S FINANCE, s.r.o.
Interest income	0	0	0	0	0
Interest expense	0	0	0	0	0
Fee and commission income	-7 056	20 127	0	0	0
Fee and commission expense	0	0	0	0	0
Profit or loss from financial operations	0	0	0	0	0
Other operating income	-1 872	0	-702	0	-225 552
Administrative expenses	0	0	0	0	0
<b>TOTAL</b>	<b>-8 928</b>	<b>20 127</b>	<b>-702</b>	<b>0</b>	<b>-225 552</b>

As of 31 December 2019, the aggregate amount of the loans provided by the Company to members of the Supervisory Board and the Board of Directors was CZK 529,243 thousand (31 December 2018: CZK 424,413 thousand). The loans predominantly comprise loans for the purchase of state bonds.

## **6. Risk Management**

### **6.1. Bank Risks**

The Company manages the risks to which it is exposed in its activity, predominantly using the methods as follows:

- Identification of the risks taken;
- Analysis, quantification and regular monitoring of the risks taken;
- Assessment of the degree of risk in executed transactions including the manner of approval;
- Setting the limits in relation to the Company's exposures towards counterparties;
- Minimisation of the degree of risk in transactions, e.g. by utilising collateral;
- Manners of approving new products; and
- Rigorous separation of risk management from the Company's business activity.

### **6.2. Market Risks**

These are the risks which the Company is exposed to predominantly as a result of fluctuations of prices, interest rates and foreign exchange rates of financial instruments on individual markets.

The primary tool for monitoring and managing market risks includes VaR (Value at Risk) and stress testing. VaR is subject to regular regressive testing using actual results in order to verify the model validity. Hypothetical as well as historical situations are used for developing stress scenarios. Set out below are individual risks, including specification of their management.

#### **6.2.1. Liquidity Risk**

The Company classifies individual items of assets and liabilities into time-based groups by their residual maturity. The selected structure of the groups is in line with generally binding legislation and the regulator's requirements.

The Company seeks to reduce the liquidity risk, particularly by maintaining a sufficient reserve of high liquid assets.

Risk Management regularly analyses the structure of assets and liabilities structure as well as cash flows to identify any increase in the liquidity risk.

The principal sources of quick liquidity are deposits with the Czech National Bank and government bonds of the Czech Republic, as well as bank deposits with other commercial banks.

#### **6.2.2. Currency Risk**

Positions in currency instruments result from the structure of the Company's assets and liabilities. The Company has foreign currencies in its own positions as it also provides its clients with services in foreign currencies.

Risk Management determines volume limits for open positions in individual currencies and the VaR limit for the currency portfolio.

Hedging currency operations are used to meet the set limits.

A confidence level as equal to 99% and the 1D and 1Y intervals of holding are used in calculating risks by means of VaR. The estimated similarity of the statistical distribution of changes in market variables with a regular distribution is assumed. The time independence principle is utilised in recalculations between individual intervals. VaR is calculated by means of the historical method, using historical periods of the last 100 or 1,000 business days, whichever is higher.

### 6.2.3. Interest Rate Risk

Interest rate risk is the risk of changes in the value of financial instruments due to changes in market interest rates. The period for which the interest rate is fixed indicates to what extent the instrument in question is exposed to the interest rate risk.

The Company maintains a stable structure of interest rate sensitive and insensitive assets and liabilities. Discrepancies (if any) are managed by way of changes in the manner of applying interest rates to the Company's assets and liabilities.

The gap analysis is used to observe the degree of using interest rates which are not determined by the Company and the degree of the interest rate risk taken whereby interest rate sensitive assets and liabilities are classified into seven time baskets. Stress scenarios of the impacts of the parallel shift of the yield curve on the present value of equity and profit/loss within one year are also used. These analyses take place on a quarterly basis.

### 6.2.4. Proprietary Trading

The Company purchases debt securities of highly creditworthy counterparties for its portfolio. These are predominantly government bonds and bonds of companies with investment rating. The degree of risk in those transactions is limited by the set limits and is regularly observed by Risk Management.

The Bank also trades with shares on markets in the Czech Republic and abroad. The risk level of these positions is restricted by the volume limits set by Risk Management as well as by the VaR limits of these positions. The limits are set to make sure that any potential losses from these positions cannot significantly affect the Bank's profitability. The positions are monitored online and their performance is regularly assessed.

### 6.2.5. Credit Risk

Credit risk means the risk arising from the counterparty's failure to meet its contractual obligations under the terms of a contract.

The Company generally monitors the credit risk for all balance sheet and off-balance sheet positions.

Basic procedures for mitigating risk exposures:

A loan applicant and a debtor are evaluated by assessing several criteria, such as their property situation, income generated in prior periods, the ability to repay the loan in the future, business plan, purpose of the loan and the value of the proposed collateral. As regards business loans, financial statements, or, more precisely, tax returns, for a number of prior years are required. Furthermore, the previous activity in Fio banka, or in other entities of the Fio Group, is also assessed,

The most liquid Czech shares traded on Burza cenných papírů Praha, a.s. are used to collateralise loans. The monitoring of the value of the collateral by means of these shares is governed by an internal policy (the value of the collateral is monitored on a daily basis). In other situations, loans are principally secured by immovable property, guarantees, acceptance of the debtor's obligation, or the pledge of the debtor's receivables from solvent business partners and other types of collateral. The collateral is usually not required for low-value overdraft loans.

The classification of receivables is based upon an internal policy and applicable legislation defining the rules for the classification of receivables and provisioning by banks. Reserves and provisions for receivables are created based on an internal policy which, to a reasonable extent, follows the law.

The Company has also prepared for the new legislation, IFRS 9, which contains changes in provisioning, predominantly by introducing probability of default (PD) and loss given default (LGD). The Company has applied the revised policies since 2018.

The Company seeks to use all legal instruments for the collection of receivables such that the costs of collection were not inadequate to the anticipated outcome.

The limits of the Company's exposure are governed by generally binding regulations stipulating the rules for credit exposure of banks. The Company applies the definition of a group of connected clients under Regulation (EU) No 575/2013 which also sets the limits of large exposures to a debtor or a group of connected clients at 25% of eligible capital.

The Company does not use credit derivatives to reduce the credit risk.

The Company enters into relations with counterparties, which include other banks or securities traders, only if they have been provided with a non-zero credit line by Risk Management. In determining the credit line, Risk Management observes the rules specified in an internal policy. In particular, Risk Management utilises information on the share capital and equity of those financial institutions as well as the structure of assets, credit portfolio quality and collateralisation of receivables. Additionally, the risk management methods, requirements of the counterparty's supervisory bodies and rating (if available) are also considered. Limits for deposits are subsequently determined as part of the counterparty's equity.

### **6.3. Operational Risks**

The Company defines operational risk as the risk of loss resulting from the inadequacy or the failure of internal processes, persons, systems or external factors.

#### Basic procedures for reducing risk

The risk of human factor failure is reduced particularly by the appropriate training of the relevant persons as well as by consistent controls.

The risk of loss or theft of cash on hand is managed by appropriate storage facilities (safe, bank safe, safety box, etc.), insurance, by setting the limits for the amount of cash as well as by inspecting compliance of the actual amount of cash with the recorded figures.

Record-keeping and the notification obligation as regards operational risk events are provided for in the specific internal policy of the Company.

There is a special internal regulation for specifying risks, procedures and measures for the reduction of risks resulting from the use of information systems.

A specific internal policy of the Company regulates the procedures and processes for the minimisation of risks arising from the launch of new products and services.

The Company currently determines the degree of operational risk by applying the basic indicator in accordance with applicable legal regulations and, concurrently, monitors operational risk events, creating a database of these events to be able to evaluate them by own statistic models.

The Company has developed plans for business continuity in the event of an unexpected suspension or limitation of its activities, such as due to a failure of external infrastructure; these plans are tested on a regular basis.

**7. RESIDUAL MATURITY OF ASSETS AND LIABILITIES**

31 December 2019

	(CZK '000)						Total
	Repayable on demand within 7 days	Within 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Not defined	
Cash in hand and balances with central banks	118 147 694	0	0	0	0	0	118 147 694
State zero-coupon bonds	0	0	0	0	0	0	0
Amounts due from banks and cooperative credit unions	1 700 756	0	396 509	0	0	0	2 097 265
Amounts due from clients	608 390	1 380 671	9 843 270	590 114	7 725 863	0	20 148 308
Debt securities	0	0	1 001 258	1 310 328	2 046 765	0	4 358 351
Shares, share certificates and other equity investments	0	0	0	0	0	172 494	172 494
Participation interests with substantial influence	0	0	0	0	0	159 992	159 992
Tangible and intangible fixed assets	0	0	0	0	0	248 080	248 080
Other assets	1 202 027	14 446	150 468	9 242	0	3	1 376 186
Receivables for subscribed capital	0	0	0	0	0	0	0
Prepayments and accrued income	0	62 017	0	0	0	0	62 017
<b>TOTAL ASSETS</b>	<b>121 658 867</b>	<b>1 457 134</b>	<b>11 391 505</b>	<b>1 909 684</b>	<b>9 772 628</b>	<b>580 569</b>	<b>146 770 387</b>
Amounts owed to banks and cooperative credit unions	233 134	0	0	0	0	0	233 134
Amounts owed to clients	137 192 676	1 382 057	1 367 889	499 515	0	0	140 442 137
Other liabilities	808 226	97 795	6 102	213 376	0	0	1 125 499
Reserves	0	0	423 721	0	0	2 083	425 804
Subordinated liabilities	0	0	0	0	90 000	0	90 000
Equity	0	0	0	0	0	4 453 813	4 453 813
<b>TOTAL LIABILITIES</b>	<b>138 234 036</b>	<b>1 479 852</b>	<b>1 797 712</b>	<b>712 891</b>	<b>90 000</b>	<b>4 455 896</b>	<b>146 770 387</b>
Net liquidity risk	-16 575 169	-22 718	9 593 793	1 196 793	9 682 628	-3 875 327	0
Cumulative liquidity risk	-16 575 169	-16 597 887	-7 004 094	-5 807 301	3 875 327	0	0

31 December 2018

	(CZK '000)						Total
	Repayable on demand within 7 days	Within 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Not defined	
Cash in hand and balances with central banks	101 908 472	0	0	0	0	0	101 908 472
State zero-coupon bonds	0	0	0	0	0	0	0
Amounts due from banks and cooperative credit unions	1 612 983	0	197 218	0	0	0	1 810 201
Amounts due from clients	247 874	1 035 507	7 017 212	1 431 642	5 401 557	0	15 133 792
Debt securities	0	0	22 342	2 275 067	2 037 354	0	4 334 763
Shares, share certificates and other equity investments	0	0	0	0	0	104 841	104 841
Participation interests with substantial influence	0	0	0	0	0	159 352	159 352
Tangible and intangible fixed assets	0	0	0	0	0	14 514	14 514
Other assets	897 255	23 206	62 837	8 497	0	3	991 798
Receivables for subscribed capital	0	0	0	0	0	0	0
Prepayments and accrued income	0	41 792	0	0	0	0	41 792
<b>TOTAL ASSETS</b>	<b>104 666 584</b>	<b>1 100 505</b>	<b>7 299 609</b>	<b>3 715 206</b>	<b>7 438 911</b>	<b>278 710</b>	<b>124 499 525</b>
Amounts owed to banks and cooperative credit unions	236 544	46	0	0	0	0	236 590
Amounts owed to clients	117 372 531	1 223 693	973 252	1 013 763	0	0	120 583 239
Other liabilities	659 505	66 472	5 629	0	0	0	731 606
Reserves	0	0	214 463	0	0	1 568	216 031
Subordinated liabilities	0	0	0	0	90 000	0	90 000
Equity	0	0	0	0	0	2 642 059	2 642 059
<b>TOTAL LIABILITIES</b>	<b>118 268 580</b>	<b>1 290 211</b>	<b>1 193 344</b>	<b>1 013 763</b>	<b>90 000</b>	<b>2 643 627</b>	<b>124 499 525</b>
Net liquidity risk	-13 601 996	-189 706	6 106 265	2 701 443	7 348 911	-2 364 917	0
Cumulative liquidity risk	-13 601 996	-13 791 702	-7 685 437	-4 983 994	2 364 917	0	0

**8. ASSETS AND LIABILITIES BY CURRENCY**

31 December 2019

	(CZK '000)				
	CZK	EUR	USD	Other	Total
Cash in hand and balances with central banks	117 916 380	188 507	42 777	30	118 147 694
State zero-coupon bonds	0	0	0	0	0
Amounts due from banks and cooperative credit unions	912 822	438 585	501 039	244 819	2 097 265
Amounts due from clients	16 061 666	3 804 777	202 621	79 244	20 148 308
Debt securities	4 283 094	75 257	0	0	4 358 351
Shares, share certificates and other equity investments	153 317	6 061	13 116	0	172 494
Participation interests with substantial influence	159 992	0	0	0	159 992
Tangible and intangible fixed assets	248 080	0	0	0	248 080
Other assets	253 362	69 134	1 050 457	3 233	1 376 186
Receivables for subscribed capital	0	0	0	0	0
Prepayments and accrued income	44 401	17 612	4	0	62 017
<b>TOTAL ASSETS</b>	<b>140 033 114</b>	<b>4 599 933</b>	<b>1 810 014</b>	<b>327 326</b>	<b>146 770 387</b>
Amounts owed to banks and cooperative credit unions	201 241	19 212	12 681	0	233 134
Amounts owed to clients	114 412 016	21 533 523	4 041 452	455 146	140 442 137
Other liabilities	871 830	247 130	5 740	799	1 125 499
Reserves	425 804	0	0	0	425 804
Subordinated liabilities	90 000	0	0	0	90 000
Equity	4 453 813	0	0	0	4 453 813
<b>TOTAL LIABILITIES</b>	<b>120 454 704</b>	<b>21 799 865</b>	<b>4 059 873</b>	<b>455 945</b>	<b>146 770 387</b>
Net currency risk	19 578 410	-17 199 932	-2 249 859	-128 619	0
Cumulative currency risk	19 578 410	2 378 478	128 619	0	0

31 December 2018

	(CZK '000)				
	CZK	EUR	USD	Other	Total
Cash in hand and balances with central banks	101 620 441	210 949	77 054	28	101 908 472
State zero-coupon bonds	0	0	0	0	0
Amounts due from banks and cooperative credit unions	690 858	440 546	386 335	292 462	1 810 201
Amounts due from clients	12 265 745	2 557 706	236 919	73 422	15 133 792
Debt securities	4 258 767	75 996	0	0	4 334 763
Shares, share certificates and other equity investments	82 779	7 131	14 931	0	104 841
Participation interests with substantial influence	159 352	0	0	0	159 352
Tangible and intangible fixed assets	12 978	1 536	0	0	14 514
Other assets	183 414	48 185	758 542	1 657	991 798
Receivables for subscribed capital	0	0	0	0	0
Prepayments and accrued income	13 803	27 985	4	0	41 792
<b>TOTAL ASSETS</b>	<b>119 288 137</b>	<b>3 370 034</b>	<b>1 473 785</b>	<b>367 569</b>	<b>124 499 525</b>
Amounts owed to banks and cooperative credit unions	190 167	31 688	14 735	0	236 590
Amounts owed to clients	101 120 006	16 342 546	2 674 278	446 409	120 583 239
Other liabilities	434 017	270 632	25 181	1 776	731 606
Reserves	216 031	0	0	0	216 031
Subordinated liabilities	90 000	0	0	0	90 000
Equity	2 642 059	0	0	0	2 642 059
<b>TOTAL LIABILITIES</b>	<b>104 692 280</b>	<b>16 644 866</b>	<b>2 714 194</b>	<b>448 185</b>	<b>124 499 525</b>
Net currency risk	14 595 857	-13 274 832	-1 240 409	-80 616	0
Cumulative currency risk	14 595 857	1 321 025	80 616	0	0

## 9. INTEREST RATE ANALYSIS

31 December 2019

						(CZK '000)	
	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Not defined	Total	
Cash in hand and balances with central banks	118 147 694	0	0	0	0	118 147 694	
State zero-coupon bonds	0	0	0	0	0	0	
Amounts due from banks and cooperative credit unions	2 044 906	52 359	0	0	0	2 097 265	
Amounts due from clients	3 050 154	10 637 232	6 269 257	191 665	0	20 148 308	
Debt securities	0	4 283 094	0	75 257	0	4 358 351	
Shares, share certificates and other equity investments	0	0	0	0	172 494	172 494	
Participation interests with substantial influence	0	0	0	0	159 992	159 992	
Tangible and intangible fixed assets (net)	0	0	0	0	248 080	248 080	
Other assets	1 216 473	150 468	9 242	0	3	1 376 186	
Receivables for subscribed capital	0	0	0	0	0	0	
Prepayments and accrued income	62 017	0	0	0	0	62 017	
<b>TOTAL ASSETS</b>	<b>124 521 244</b>	<b>15 123 153</b>	<b>6 278 499</b>	<b>266 922</b>	<b>580 569</b>	<b>146 770 387</b>	
Amounts owed to banks and cooperative credit unions	233 134	0	0	0	0	233 134	
Amounts owed to clients	138 574 733	1 367 889	499 515	0	0	140 442 137	
Other liabilities	906 021	6 102	213 376	0	0	1 125 499	
Reserves	0	423 721	0	0	2 083	425 804	
Subordinated liabilities	0	0	0	90 000	0	90 000	
Equity	0	0	0	0	4 453 813	4 453 813	
<b>TOTAL LIABILITIES</b>	<b>139 713 888</b>	<b>1 797 712</b>	<b>712 891</b>	<b>90 000</b>	<b>4 455 896</b>	<b>146 770 387</b>	
Net interest rate risk	-15 192 644	13 325 441	5 565 608	176 922	-3 875 327	0	
Cumulative interest rate risk	-15 192 644	-1 867 203	3 698 405	3 875 327	0	0	

31 December 2018

						(CZK '000)	
	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Not defined	Total	
Cash in hand and balances with central banks	101 908 472	0	0	0	0	101 908 472	
State zero-coupon bonds	0	0	0	0	0	0	
Amounts due from banks and cooperative credit unions	1 612 983	197 218	0	0	0	1 810 201	
Amounts due from clients	3 664 794	7 303 820	4 016 653	148 525	0	15 133 792	
Debt securities	0	4 258 767	0	75 996	0	4 334 763	
Shares, share certificates and other equity investments	0	0	0	0	104 841	104 841	
Participation interests with substantial influence	0	0	0	0	159 352	159 352	
Tangible and intangible fixed assets	0	0	0	0	14 514	14 514	
Other assets	920 461	62 837	8 497	0	3	991 798	
Receivables for subscribed capital	0	0	0	0	0	0	
Prepayments and accrued income	41 792	0	0	0	0	41 792	
<b>TOTAL ASSETS</b>	<b>108 148 502</b>	<b>11 822 642</b>	<b>4 025 150</b>	<b>224 521</b>	<b>278 710</b>	<b>124 499 525</b>	
Amounts owed to banks and cooperative credit unions	236 590	0	0	0	0	236 590	
Amounts owed to clients	118 591 033	978 445	1 013 761	0	0	120 583 239	
Other liabilities	725 977	5 629	0	0	0	731 606	
Reserves	0	214 463	0	0	1 568	216 031	
Subordinated liabilities	0	0	0	90 000	0	90 000	
Equity	0	0	0	0	2 642 059	2 642 059	
<b>TOTAL LIABILITIES</b>	<b>119 553 600</b>	<b>1 198 537</b>	<b>1 013 761</b>	<b>90 000</b>	<b>2 643 627</b>	<b>124 499 525</b>	
Net interest rate risk	-11 405 098	10 624 105	3 011 389	134 521	-2 364 917	0	
Cumulative interest rate risk	-11 405 098	-780 993	2 230 396	2 364 917	0	0	

## 10. POST BALANCE SHEET EVENTS

Recession resulting from measures taken by individual states in relation to the COVID-19 pandemic is accompanied by a number of risks and significantly mitigates the relatively optimistic outlook from prior periods.

### Macroeconomic impacts

For the Czech Republic, which is a small open economy, the current recession poses a threat namely due to the decline in foreign trade. While predictions of most financial authorities spoke about the expected growth of Czech GDP slightly above 2% in early 2019, now the estimates are significantly negative. At the same time, there are significant changes in the CNB's policy as the CNB critically reduces interest rates.

### Macroeconomic impacts on Fio banka

Fio banka is now exposed to three macroeconomic risks: currency and political rates, exchange rate policy and market risks. Significant reduction of rates by the CNB has become a potential risk for Fio banka due to its highly conservative portfolio in which majority of assets are placements in repo operations with the CNB. Fio banka thus decided to increase the volumes of government bonds it holds as they promise a stable long-term yield, albeit lower. Liquidity and the conservative approach have not been disrupted by this strategic decision. There is no need to vigorously increase capital requirements and the Bank is not exposed to counterparty market risk. Czech government bonds are assessed by rating agencies as ranking among the safest in the world thanks to the low government debt.

The risk of exchange rate development caused namely by the nature of the Czech crown dirty-floating is predominantly operating risk for the Fio group. Unexpected exchange rate movements have a negative impact on balanced FX cash-flow whose long-term goal is to hold amounts denominated in foreign currencies that are needed for our clients' operations and group entities. Fio banka responds to the situation by flexible spot and forward transactions on the financial market and by adjustments of internally set-up limits for exchange rate risks.

Since events are unfolding day-by-day, the Company's management is unable to reliably quantify the potential impact of these events on the Company at present. Any negative impact, namely losses, will be included in the Company's accounting books and financial statements in 2020.

The Company's management has assessed the potential impact of COVID-19 on its activities and reached the conclusion that they do not have a significant effect on the Company's ability to continue as a going concern. Therefore, the financial statements for the year ended 31 December 2019 have been prepared on the going concern basis.

### Microeconomic impacts

The state of emergency introduced by the government resulted in significant restrictions having a negative impact on the labour market and ability of businesses generate income and profit. Businesses from affected sectors and their employees will face significant deterioration of their available income. The key factors will include the length of the government restrictions and availability and the government's guarantee of financial aid to overcome the current situation.

### Microeconomic impacts for Fio banka

The Bank's microeconomic impacts namely include all financial losses of clients causing increased credit risk. At the first signs of the pandemic, the Bank started monitoring the most exposed entities, i.e. entities working in the travel sector or industries with a high portion of export.

Pursuant to Act no. 177/2020 Coll., Fio banka started providing repayment concessions to all clients who are not able to meet their obligations as a result of the coronavirus pandemic. In order to reduce its credit risk, the Bank applies discount on collateral value due to prospective decreases of prices on the real estate market. At the same time, Fio banka requires from clients applying for new loans a higher portion of their own funds.

### **Impacts in the Bank's risk position**

Compared to other entities on the financial market, the Bank has a more favourable position as it has applied a conservative strategy of slight growth with minimum risk in the long term. It is ready to include the high profit for 2019 generated by excellent economic conditions in its capital to have a sufficient reserve to meet its regulatory requirements, including the expected MREL. The measures relating to credit risk are fully acceptable by the Bank as they comply with the stress testing expectations from prior years. Fio banka is prepared to face future challenges with maximum commitment, preferring stability and security of which its clients are well aware.

In 2020, the Bank will carefully monitor the impact of the COVID-19 epidemic on the credit portfolio's risk profile. At the same time, it will regularly update its provisioning models pursuant to IFRS 9 based on current assumptions and outlook, as well as the recognition of provisions for individually assessed clients. It may be expected that the costs of risk will be higher due to the deteriorated macroeconomic environment. In addition, it will be necessary to recognise provisions for exposures with respect to which deferral of payments will be allowed based on the valid offer to the clients. The procyclical provisioning model under IFRS 9 will also have an effect. The Bank expects that a portion of the newly recognised provisions could be released later, i.e. as soon as the extraordinary economic situation normalises.

# IV.

## Information on Capital

## Information on Capital, Capital Requirements and Ratio Indicators

(Information published under Section 102 (1) of Decree No. 163/2014 Coll.)

In 2014, new legal regulations came into force providing for capital adequacy by launching the Basel III requirements, namely Capital Requirements Regulation (EU) No 575/2013 (CRR) and Decree No. 163/2014 Coll. of the Czech National Bank. Nevertheless, the changes arising for the Company due to the new regulations are rather insignificant.

### Information on capital requirements on an individual basis as of 31 December 2019 (CZK '000)

Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and related share premium = Paid share capital	760 000,000
2	Retained earnings	2 693 153,615
6	Common Equity Tier 1 capital before normative adjustments	3 481 690,892
Common Equity Tier 1 capital: normative adjustments		
8	Intangible assets (net of related tax liabilities) (negative value)	-5 249,955
28	Total normative adjustments to Common Equity Tier 1 capital	-5 476,077
29	Common Equity Tier 1	3 476 214,815
44	Additional Tier 1 capital	0,000
45	Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital	3 476 214,815
Tier 2 capital: Instruments and items		
46	Capital instruments and related share premium	0,000
57	Total normative adjustments to Tier 2 capital	0,000
58	Tier 2 capital	90 000,000
59	<b>Total capital = Tier 1 capital + Tier 2 capital</b>	<b>3 566 214,815</b>

**Information on capital requirements on an individual basis as of 31 December 2019  
(CZK '000)**

The Company applies the standardised approach to calculating the capital requirements for credit risk.

<b>Credit risk</b> – 8% of the volume of risk-weighted exposures for each category of exposures listed in Article 112	Exposures to central governments or central banks	0,000
	Exposures to regional governments or local authorities	0,000
	Exposures to public sector entities	0,000
	Exposures to international development banks	0,000
	Exposures to international organisations	0,000
	Exposures to institutions	46 166,064
	Exposures to companies	714 124,602
	Retail exposures	77 010,073
	Exposures secured by property	154 983,956
	Exposures in default	124 928,378
	Exposures related with extremely high risk	139 623,925
	Exposures in secured bonds	0,000
	Items representing securitised positions	0,000
	Exposures to institutions and businesses with short-term credit rating	0,000
	Exposure in the form of share units or shares in collective investment entities	0,000
	Share exposure	15 711,503
	Other items	19 781,841
Capital requirement calculated under Section 92 (3) b) and c)	Regarding the position risk	23 616,989
	These limits may be exceeded for large exposures listed in Articles 395 through 401 if institutions are permitted to do so.	0,000
	Regarding currency risk	0,000
	Regarding settlement risk	0,000
	Regarding commodity risk	0,000
Under Title III Chapter 2 – regarding operating risk, by way of the basic indicators		248 075,050
<b>TOTAL</b>		<b>1 564 036,208</b>

**Capital ratios as of 31 December 2019 (as a percentage share of the risk exposure)**

61	Common Equity Tier 1 capital	17.78 %
62	Tier 1 capital	17.78 %
63	Total capital	18.24 %

## Ratio indicators

	<b>As of 31 December 2019</b>
Return on average assets (ROAA)	1,22%
Return on assets (ROA)	1,23%
Return on average equity (ROAE)	51,87%
Assets per employee (CZK '000)	1 706 623
Administrative costs per employee (CZK '000)	8 671
Profit or loss after tax per employee (CZK '000)	20 967

The information on the Company that has to be published is available at: <http://www.fio.cz/o-nas/fio-banka>



# Related Party Transactions Report



**Report on Relations between the Controlling Entity and the Controlled Entity and between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity** (hereinafter the "Report on Relations") prepared pursuant to Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations, of Fio banka, a.s., Corporate ID: 61858374, with its registered office at Prague 1, V Celnici 1028/10, postal code 11721, recorded in the Register of Companies held by the Municipal Court in Prague, File No. B 2704, for the reporting period from 1 January 2019 to 31 December 2019.

## **I. Structure of Relations**

### **1. Controlled Entity**

Fio banka, a.s.

Corporate ID: 61858374

Praha 1, V Celnici 1028/10, postal code 11721

recorded in the Register of Companies held by the Municipal Court in Prague, File No. B 2704, represented by the Chairman of the Board of Directors, Jan Sochor, and a member of the Board of Directors, Josef Valter,

(hereinafter the "Bank" or the "Controlled Entity")

### **2. Controlling Entity**

Fio holding, a.s.

Corporate ID: 60192763

with its registered office at: 117 21 Prague 1, V Celnici 1028/10

recorded in the Register of Companies held by the Municipal Court in Prague, File No. B 2270

The company's shareholders are Petr Marsa and Romuald Kopún, acting in concert, who represent the Controlling Entity, thus indirectly controlling the Controlled Entity.

(hereinafter also the "Controlling Persons")

### **3. Entities Controlled by the Same Controlling Persons, Petr Marsa and Romuald Kopún**

- AASRK, a.s., Corporate ID: 28205367, Praha 1, V Celnici 1028/10, postal code 117 21;
- AGROPRODUKT-odbytové družstvo, Corporate ID: 43903797, Madunice, Kostolanská 2/540, postal code 922 42, Slovak Republic;
- AKAM, s.r.o., Corporate ID: 36037419, Madunice, Kostolanská 2/540, postal code 922 42, Slovak Republic;
- APMAS, a.s., Corporate ID: 28206436, Praha 1, V Celnici 1028/10, postal code 117 21;
- AYA, s.r.o., Corporate ID: 35764716, Madunice, Kostolanská 2/540, postal code 922 42, Slovak Republic;
- BASRK, a.s., Corporate ID: 28204107, Praha 1, V Celnici 1028/10, postal code 117 21;
- BPMAS, a.s., Corporate ID: 28212703, Praha 1, V Celnici 1028/10, postal code 117 21;
- CASRK, a.s., Corporate ID: 28207483, Praha 1, V Celnici 1028/10, postal code 117 21;
- CFT, a.s., Corporate ID: 61859079, Praha 1, V Celnici 1028/10, postal code 117 21;
- CPMAS, a.s., Corporate ID: 28211138, Praha 1, V Celnici 1028/10, postal code 117 21;
- DASRK, a.s., Corporate ID: 282 12 711, Praha 1, V Celnici 1028/10, postal code 117 21;
- Družstevní záložna Kredit, Corporate ID: 64946649, Praha 1, V Celnici 1028/10, postal code 117 21;
- Družstevní záložna PSD, Corporate ID: 64946835, Praha 1, V Celnici 1028/10, postal code 117 21;
- DZ KREDIT a.s., Corporate ID: 25623184, Praha 1, V Celnici 1028/10, postal code 117 21;
- EASRK, a.s., Corporate ID: 28206576, Praha 1, V Celnici 1028/10, postal code 117 21;
- ELLIAD a.s., Corporate ID: 25623192, Praha 1, V Celnici 1028/10, postal code 117 21;
- EPMAS, a.s., Corporate ID: 28206517, Praha 1, V Celnici 1028/10, postal code 117 21;
- Finanční skupina Fio, a.s., Corporate ID: 26761858, Praha 1, V Celnici 1028/10, postal code 117 21;
- Fio Consulting, spol. s.r.o., Corporate ID: 25740334, Praha 1, V Celnici 1028/10, postal code 117 21;

- Fio holding, a.s., Corporate ID: 60192763, Praha 1, V Celnici 1028/10, postal code 117 21;
- Fio investiční společnost, a.s., Corporate ID: 06704441, Praha 1, V Celnici 1028/10, postal code 110 00;
- Fio leasing, a.s., Corporate ID: 61860841, Praha 1, V Celnici 1028/10, postal code 110 00;
- Fio Polska spółka z o.o, Corporate ID: 140192608, Szpitalna 1/17, 00-020 Warszawa, Poland;
- Fio Slovakia, a.s., Corporate ID: 35828137, Nám. SNP 21, Bratislava 811 01;
- FPMAS, a.s., Corporate ID: 282 11 502, Praha 1, V Celnici 1028/10, postal code 117 21;
- FPSROG, spol. s r.o., Corporate ID: 25718843, Praha 1, V Celnici 1028/10, postal code 117 21;
- FPSROH, spol. s r.o., Corporate ID: 25738755, Praha 1, V Celnici 1028/10, postal code 117 21;
- GENT CZ spol. s r.o., Corporate ID: 48593753, Praha 1, V Celnici 1028/10, postal code 117 21;
- KOFIMA, s. r.o., Corporate ID: 25269241, Praha 9, Kolmá 5/597, postal code 190 00;
- Middleton a.s., Corporate ID: 35942177, Nám. SNP 21, Bratislava 811 01, Slovak Republic;
- Fio forexová, s.r.o., Corporate ID: 27589587, Praha 1, V Celnici 1028/10, postal code 117 21;
- NOBLIGE a.s., Corporate ID: 26145090, Praha 1, V Celnici 1028/10, postal code 117 21;
- OVOAGRI s.r.o., Corporate ID: 36463388, Madunice, Kostolanská 2/540, postal code 922 42, Slovak Republic;
- OVOFARM s.r.o., Corporate ID: 36015067, Madunice, Kostolanská 2/540, postal code 922 42, Slovak Republic;
- RM-S FINANCE, s.r.o., Corporate ID: 62915240, Praha 1, V Celnici 1028/10, postal code 117 21;
- RM-SYSTÉM, česká burza cenných papírů a.s., Corporate ID: 471 16 404, Praha 1 - Nové Město, V Celnici 1028/10, postal code 117 21;
- T.O.R.S. s.r.o., Corporate ID: 49682024, Praha 1, V Celnici 1028/10, postal code 117 21;
- VARIEL, a.s., Corporate ID: 45148287, Zruč nad Sázavou, Průmyslová 1034, postal code 285 22;
- VVISS a.s., Corporate ID: 48585131, Praha 9, Kolmá 5/597, postal code 190 00;
- VVISS delta, s.r.o., Corporate ID: 36015105, Madunice, Kostolanská 2/540, postal code 922 42, Slovak Republic;
- VVISS Lipence, s.r.o., in liquidation, Corporate ID: 64581314, Praha 9, Kolmá 5/597, postal code 190 00;
- VVISS Plzeň, s.r.o., Corporate ID: 64581331, Praha 9, Kolmá 5/597, postal code 190 00;
- VVISS spol. s r.o., Corporate ID: 30229529, Kostolanská 2/540, Madunice postal code 922 42, Slovak Republic; and
- VVISS Terežín, s.r.o., in liquidation, Corporate ID: 25125931, Praha 9, Kolmá 5/597, postal code 190 00.



## II. Role of the Controlled Entity

The Controlled Entity, as a provider of payment and banking services, enters into business relationships with entities within the group of controlled entities, predominantly with RM-S Finance, s.r.o., which is a tied agent of the Bank (similarly, in Slovakia, the Controlled Entity enters into business relationships with Fio Slovakia a.s., by means of its organisational branch Fio banka, a.s., pobočka zahraničnej banky) and further with Družstevní záložna PSD, RM-SYSTÉM, česká burza cenných papírů a.s. and Fio investiční společnost, a.s. with which the Bank cooperates in the field of provision of banking services and trading with securities.

Other entities within the group of controlled entities are principally provided with standard banking services as well as services the Bank is authorised to provide as a securities trader.

## III. Manner and Means of Control

1. The Bank is directly controlled by Fio holding, a.s., which holds 100% of the Bank's shares.
2. The Bank is indirectly controlled by the sole shareholders of Fio holding, a.s., Messrs Petr Marsa and Romuald Kopún, acting in concert, who thus indirectly control the Controlled Entity and represent the Controlling Persons.

## IV. Contracts and Agreements Concluded in the Year Ended 31 December 2019 and Contracts and Agreements Still Effective in the Year Ended 31 December 2019

### 1. Contracts and agreements concluded between the Controlling Persons and the Controlled Entity

#### a) Contracts concluded prior to 1 January 2019 still effective as of 31 December 2019

**Romuald Kopún**

Loan agreement No. 131000119  
Bank account agreements  
Agency contract and other arrangements

**Petr Marsa**

Loan agreement No. 131000121  
Bank account agreements  
Agency contract and other arrangements  
Framework agreement on financial market trading

**Fio holding, a.s.**

Shares subscription agreement  
Account maintenance agreements  
Agency contract and other arrangements

#### b) Contracts concluded in the year ended 31 December 2019

**Romuald Kopún**

Account maintenance agreements

**Petr Marsa**

Account maintenance agreements

### 2. Contracts and agreements concluded between the Controlled Entity and entities controlled by the same Controlling Persons

#### a) Contracts concluded prior to 1 January 2019 still effective as of 31 December 2019

**AASRK, a.s.**

Account maintenance agreement

**AGROPRODUKT - odbytové družstvo**  
Account maintenance agreement

**AKAM, s.r.o.**  
Account maintenance agreement

**APMAS, a.s.**  
Account maintenance agreement

**AYA s.r.o.**  
Account maintenance agreement

**BASRK, a.s.**  
Account maintenance agreement

**BPMAS, a.s.**  
Account maintenance agreement

**CASRK, a.s.**  
Account maintenance agreement

**CFT a.s.**  
Account maintenance agreement  
Framework agreement on financial market trading

**CPMAS, a.s.**  
Account maintenance agreement

**DASRK, a.s.**  
Account maintenance agreement

**Družstevní záložna Kredit**  
Account maintenance agreement  
Agency contract  
Outsourcing contract  
Framework agreement on financial market trading  
Personal data processing agreement

**Družstevní záložna PSD**  
Cooperation agreement  
Account maintenance agreements  
Framework service level agreement  
Agreement on ensuring the activity of the Internal Audit division in line with the organisational rules of Družstevní záložna PSD  
Contract on the definition of rights and obligations following from the membership in VAT group registration

**DZ KREDIT a.s.**  
Account maintenance agreement  
Agency contract and other arrangements  
Framework agreement on financial market trading

**EASRK, a.s.**  
Account maintenance agreement

**ELLIAD a.s.**  
Account maintenance agreement  
Agency contract and other arrangements  
Framework agreement on financial market trading

**EPMAS, a.s.**

Account maintenance agreement

**Finanční skupina Fio, a.s.**

Account maintenance agreement

Contract on the transfer of a business interest

**Fio Consulting, spol. s.r.o.**

Account maintenance agreements

Bookkeeping agreement

Personal data processing agreement

**Fio forexová, s.r.o.**

Account maintenance agreement

Loan agreement No. 151000061

**Fio investiční společnost, a.s.**

Account maintenance agreements

Master agreement on investment

Framework agreement on financial market trading

Outsourcing contract

Contract on offering investments to the fund

Personal data processing agreement

**Fio leasing, a.s.**

Sub-lease agreement

**FIO POLSKA SP Z O O**

Account maintenance agreements

**Fio Slovakia, a.s.**

Account maintenance agreements

Contract on the definition of rights and obligations following from the membership in a VAT group registration

Contract of mandate

**FPMAS, a.s.**

Account maintenance agreement

**FPSROH spol. s r.o.**

Account maintenance agreement

**FPSROG spol. s r.o.**

Account maintenance agreement

**GENT CZ spol. s r.o.**

Agency contract and other arrangements

**KOFIMA, s.r.o.**

Account maintenance agreement

**Midleton a.s.**

Account maintenance agreements

**NOBLIGE a.s.**

Account maintenance agreements

Framework agreement on financial market trading

**Odbytové družstvo ovoce Český ráj**

Account maintenance agreements

**OVOAGRI s.r.o.**

Account maintenance agreements

**OVOFARM s.r.o.**

Account maintenance agreement

**RMS-Finance s.r.o.**

Agency agreement

Contract on the definition of rights and obligations following from membership in a VAT group registration

Contract on the administration and development of an IT system and other ICT equipment

Account maintenance agreements

Outsourcing contract

Personal data processing agreement

**RM-SYSTÉM, česká burza cenných papírů a.s.** (hereinafter also "Česká burza")

Contract regulating the conditions for the activities of a market maker

Contract on a special validation method

Hedging agreement

Mutual cooperation agreement on the validation of the technical and programme service solution

Sublease agreement

Contract on the definition of rights and obligations following from the membership in a VAT group registration

Account maintenance agreements

Internal audit services agreement

Compliance services agreement

Contract on the representation of Česká burza with the registration of clients

Contract on the internalisation of settlement

Contract on access to the market of Česká burza

Contract on the report of transactions

**T.O.R.S. s.r.o.**

Account maintenance agreement

Framework agreement on financial market trading

**VARIEL, a.s.**

Account maintenance agreement

Loan agreement No. 141000078

Loan agreement No. 151000002

Loan agreement No. 171000065

Loan agreement No. 171000066

Loan agreement No. 181000083

Master agreement on investment

**VVISS, a.s.:**

Account maintenance agreements

Contract on the definition of rights and obligations following from membership in a VAT group registration

Loan agreement No. 151000039

Contract on the provision of a borrowing

Contract on the provision of a guarantee No. 163000008

Contract on the provision of a guarantee No. 173000029

**VVISS delta, s.r.o.**

Account maintenance agreement

**VVISS Plzeň, s.r.o.**

Account maintenance agreements

Loan agreement No. 111000039  
Loan agreement No. 161000051

**VVISS spol. s r.o.**  
Account maintenance agreements  
Loan agreement No. 131000045

**b) Contracts concluded in the year ended 31 December 2019**

**DZ KREDIT a.s.**  
Account maintenance agreement

**Fio Slovakia, a.s.**  
Account maintenance agreement

**VARIEL, a.s.**  
Account maintenance agreement

**VVISS, a.s.**  
Account maintenance agreement  
Loan agreement no. 191000027  
Contract on the provision of a guarantee No. 193000015

**VVISS spol. s r.o.**  
Loan agreement No. 191000018  
Contract on the provision of a guarantee No. 193000001  
Contract on the provision of a guarantee No. 193000016

In some cases, other contracts on the provision of standard banking services were concluded in relation to the account maintenance agreements (eg agreements on the issuance of bank cards, activation of internet banking etc). Also, amendments to some of the aforementioned contracts and agreements were concluded.

**V. List of the Acts Made in the Latest Reporting Period at the Instigation or in the Interest of the Controlling Entity or Entities Controlled by the Controlling Entity with Respect to Assets Exceeding 10% of Equity identified in the Financial Statements for the Year Ended 31 December 2019**

- In 2019, Fio forexová, s.r.o. drew a loan provided by Fio banka, a.s. (based on the aforementioned Loan Agreement No. 151000061) of up to CZK 21 billion.

**VI. Assessment of Detriment Incurred by the Controlled Entity and the Settlement thereof pursuant to Sections 71 and 72 of Act No. 90/2012 Coll.**

The Bank as the Controlled Entity did not incur any detriment. All transactions made between the Controlling Entity and the Controlled Entity and between the Controlled Entity and entities controlled by the same Controlling Entity were made pursuant to the applicable legal regulations.

## VII. Assessment of Advantages and Disadvantages Arising from Control

Within the group of controlled entities, as far as the Bank is concerned, advantages of being a controlled entity prevail, the main reason being the fact that, the Bank is ultimately controlled by two natural persons acting in concert, which provides the Bank with stability in decision-making processes.

In 2019, controlled entities cooperated predominantly in credit syndication, foreign currency trading and in mediation of bank services, both the payment and investment ones. The controlled entities are not in competition in terms of the services provided and, therefore, such a situation has no negative impact on their market position and the Bank and its management have sufficient space to maximally exploit the market potential in the respective area of business.

In Prague on 31 March 2020

.....  
**Jan Sochor**  
Chairman of the Board of Directors  
Fio banka, a.s.

.....  
**Marek Polka**  
Member of the Board of Directors  
Fio banka, a.s.